

Annual Report 2010

Building Pakistan



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Contents

06	Vision and Mission Statement
08	Strategic Objectives
20	Core Values
22	Awards
24	Products and Services
26	Corporate Information
28	Profiles of the Board of Directors
33	Board Committees
35	Organisational Structure
36	Management Committees
39	Corporate Profile of the Bank
40	Chairman's Message
41	President's Review

Stakeholder's Information

43	Key Performance Indicators
44	Six Years' Financial Summary
46	Six Years' Growth Summary
46	Key Financial Highlights Per Branch
48	Graphical Presentation of Financial Statements
49	Key Interest Bearing Assets and Liabilities
50	Segment Information
51	Maturity Analysis of Assets and Liabilities
52	Groupwise Performance
53	Statement of Value Added
54	Vertical Analysis
55	Horizontal Analysis
56	Quarterly Performance for 2010 and 2009
56	Summary of Cash Flows
57	Market Statistics of MCB's Share
58	MCB Calendar



59	Entity Ratings
60	Directors' Report to the Members
73	Corporate Social Responsibility
74	Statement of Ethics & Business Practices
77	Statement of Compliance with the Code of Corporate Governance
78	Auditors' Review Report to the Members on Code of Corporate Governance

Standalone Financial Statements

79	Auditors' Report to the Members
80	Statement of Financial Position
81	Profit and Loss Account
82	Statement of Comprehensive Income
83	Cash Flow Statement
84	Statement of Changes in Equity
85	Notes to the Financial Statements
146	Annexures

Consolidated Financial Statements

166	Directors' Report on Consolidated Financial Statements
167	Auditors' Report to the Members
168	Consolidated Statement of Financial Position
169	Consolidated Profit and Loss Account
170	Consolidated Statement of Comprehensive Income
171	Consolidated Cash Flow Statement
172	Consolidated Statement of Changes in Equity
173	Notes to the Consolidated Financial Statements
235	Annexures
243	Branch Network
245	Pattern of Shareholdings
245	Categories of Shareholders
247	Notice of 63rd Annual General Meeting
250	Glossary of Terms
253	Form of Proxy



Vision

To be the leading financial services provider, partnering with our customers for a more prosperous and secure future.



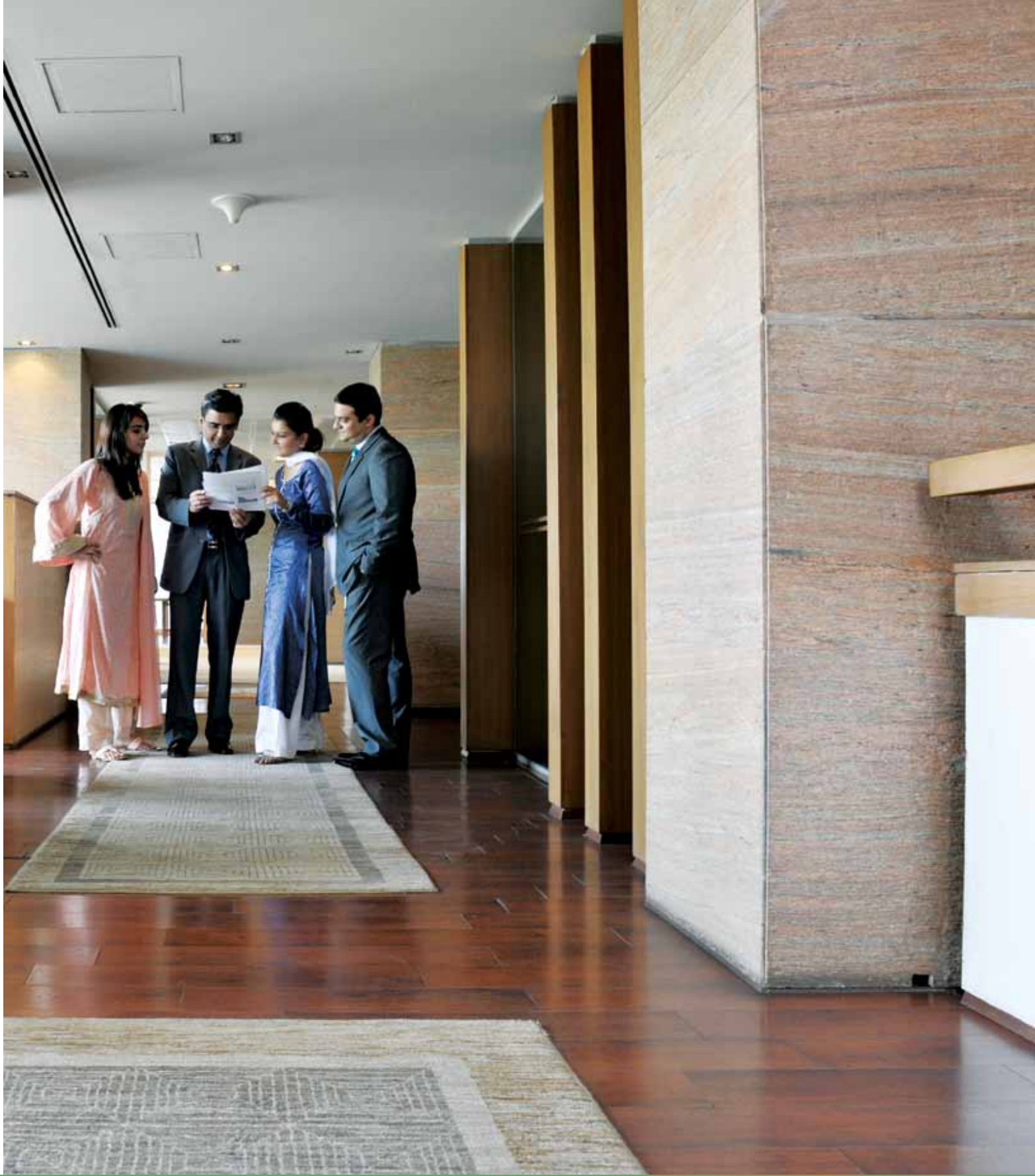
Mission

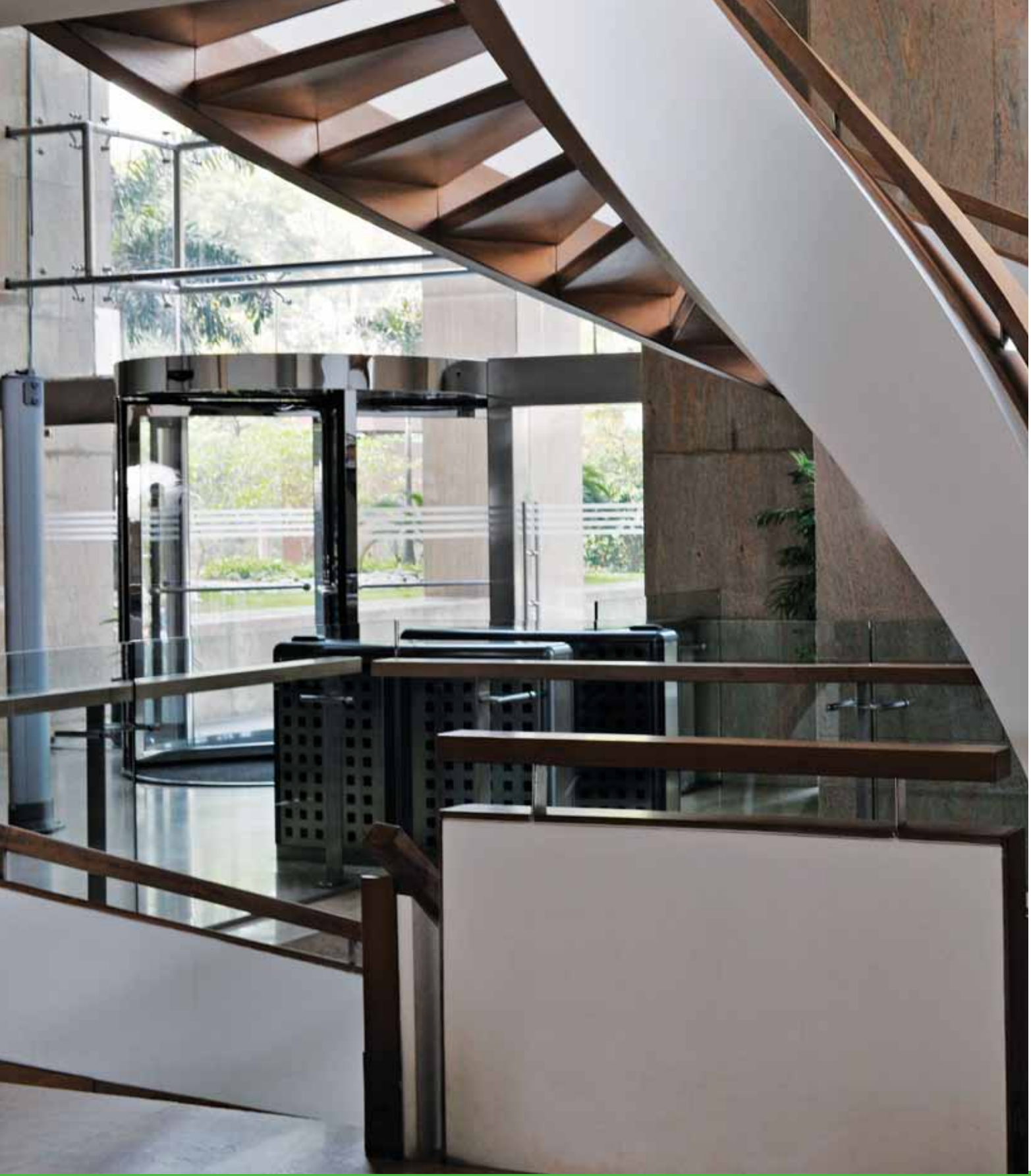
We are a team of committed professionals, providing innovative and efficient financial solutions to create and nurture long-term relationships with our customers. In doing so, we ensure that our shareholders can invest with confidence in us.



Strategic Objectives

- Delivering remarkable returns to stakeholders, sustainable performance, exceeding market and shareholder expectations.
- Providing value added services through operational expansion, geography and upgraded systems.
- Building a corporate culture of equality, trust and team spirit as we remain dedicated to be a socially responsible organization.





With a winning combination of leading professionals and best operating practices, we create teams that are geared towards value-creation and value-growth — driven by time-tested partnerships.

building



teams



Our alliances help us gain strategic advantage across all markets — helping us to secure and sustain our leadership and foster a spirit of partnership.

building



alliances



Our integrity and transparency in all aspects of our business, across the country, demand that we build relationships on trust, confidence and the full measure of discretion for both our internal and external customers.

building



relationships



With the right combination of insight, foresight and hindsight, we can focus on a variety of strategic and leadership goals to help bring our vision to life in ways that add more perspective to the business.

building



focus

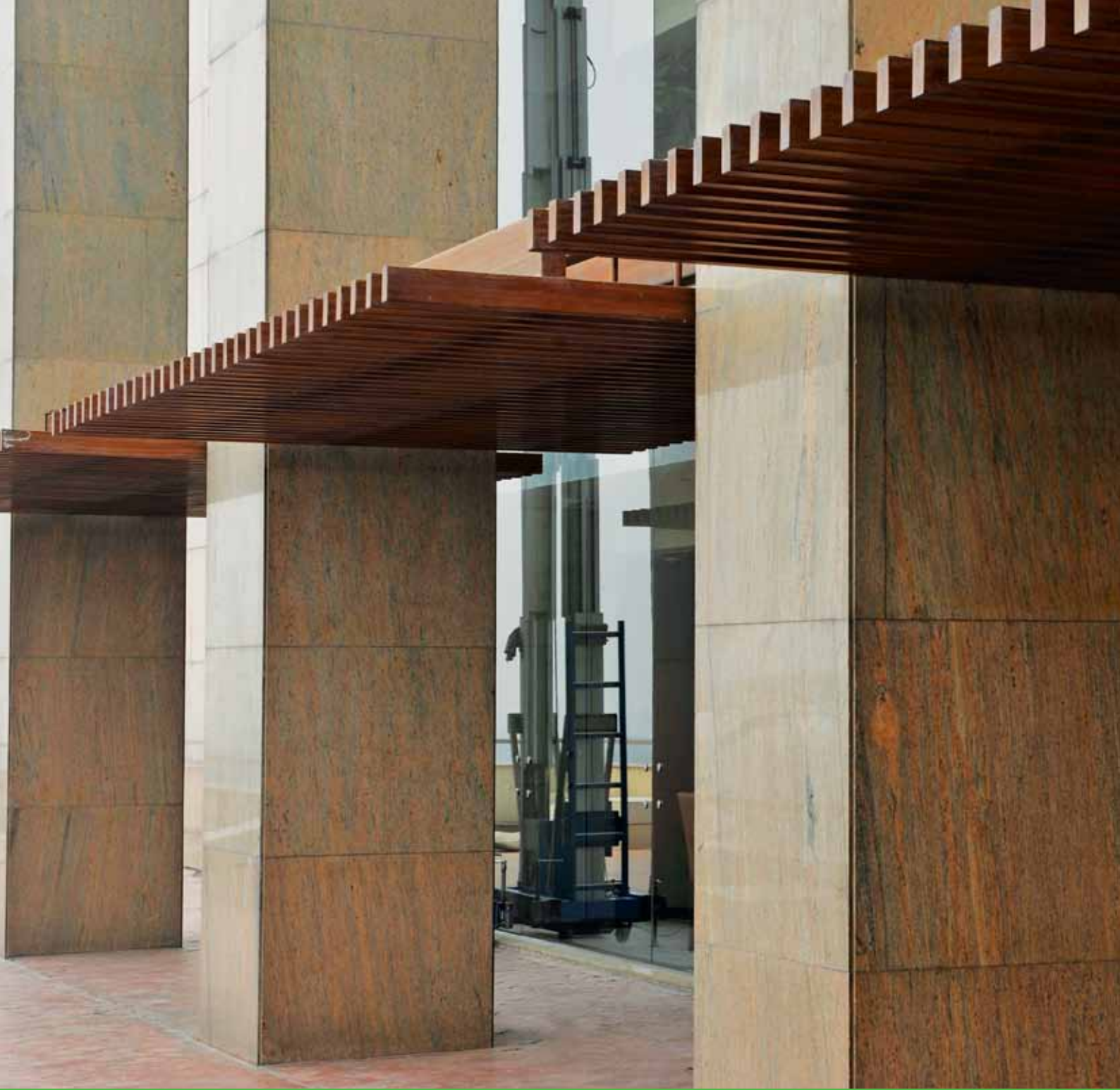


Relationships that are built on trust, prove to be an important and sustainable competitive advantage. We believe that winning our customers' trust is the way to benefit from an investment in their hearts and minds.

building



trust



Values

Integrity

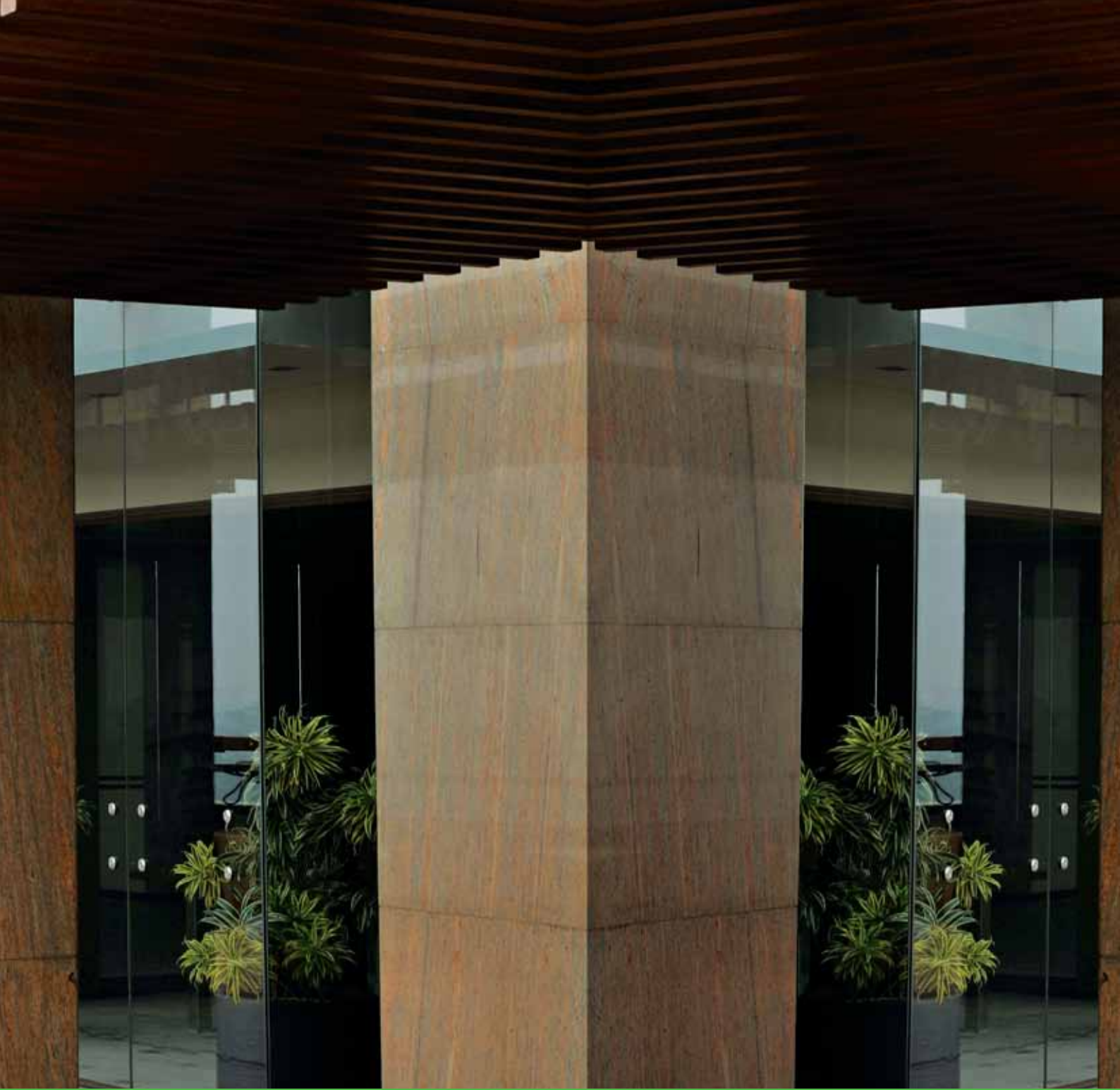
We are the trustees of public funds and serve our community with integrity. We believe in being the best at always doing the right thing. We deliver on our responsibilities and commitments to our customers as well as our colleagues.

Innovation

We encourage and reward people who challenge the status quo and think beyond the boundaries of the conventional. Our teams work together for the smooth and efficient implementation of ideas and initiatives.

Excellence

We take personal responsibility for our role as leaders in pursuit of excellence. We are a performance driven, result oriented organization where merit is the only criterion for reward.



Customer Centricity

Our customers are at the heart of everything we do. We thrive on the challenge of understanding their needs and aspirations, both realized and unrealized. We make every effort to exceed customer expectations through superior services and solutions.

Respect

We respect our customers' values, beliefs, culture and history. We value the equality of gender and diversity of experience and education that our employees bring with them. We create an environment where each individual is enabled to succeed.



Awards

2010	The Asian Banker:	Strongest Bank in Pakistan	2009	Asiamoney:	Best Domestic Bank in Pakistan
2010	The Asian Banker:	Leadership Achievement Award	2009	The Asset:	Best Domestic Bank in Pakistan
2010	MMT:	Best Bank Led MMT Service	2008	Euromoney:	Best Bank in Asia
2010	ICAP / ICMAP:	BCR Award 2009-Banking Sector	2008	Euromoney:	Best Bank in Pakistan
2010	SAFA:	Certificate of Merit Award	2008	Asiamoney:	Best Domestic Bank in Pakistan



2006 **Asiamoney:** Best Domestic Bank in Pakistan
2006 **Euromoney:** Best Bank in Pakistan
2005 **Asiamoney:** Best Domestic Bank in Pakistan
2005 **Euromoney:** Best Bank in Pakistan
2004 **Euromoney:** Best Bank in Pakistan

2004 **Asiamoney:** Best Domestic Bank in Pakistan
2003 **Euromoney:** Best Bank in Pakistan
2001 **Euromoney:** Best Bank in Pakistan
2000 **Euromoney:** Best Bank in Pakistan



Products and Services



Current Account

MCB Bank offers a variety of current accounts to cater to the everyday transactional needs of various customers. These accounts ensure ease and freedom to bank from any of the 1100+ branches across the country. The different accounts include: the Basic Banking Account that has no minimum balance; Business Account offering free online transactions, Demand Drafts, Pay Orders and lots more to meet the day to day business requirements; Current Life Account which offers the security of life insurance free of cost; and for all others, the conventional Current Account.

Savings Account

MCB Bank offers a wide array of savings products that suit short term growth & transactional needs. Our savings accounts offer attractive profit rates as well as flexibility to transact. Savings Xtra is targeted for customers having Rs. 5 million + deposit, 365 Gold offers profit rate on daily balance while PLS savings has a lower minimum balance requirement. In addition, two unique products: Smart Savings and Savings Maximizer are special saving accounts run solely via debit cards and other remote banking channels, offering a very competitive rate to both high and low end savers.

Term Deposit

MCB Term Deposit offer attractive short to mid-term investment options with flexibility, convenience and security. With various tenor options available, customers can choose one that suit their needs. This is combined with different profit payout options and the added facility of being able to avail credit facility against their deposits.

MCB Online Banking

MCB has a fast growing network of 1100+ online branches in the country providing customers real-time online transaction facilities.

MCB MNET

MNET is an electronic inter-bank connectivity platform for online transactions on ATM and other remote banking channels. It offers other value added services that include a portfolio of e-banking and payment system products as well as management and day-to-day operations of the same. Members include 10 local and foreign financial institutions enjoying ATM sharing and value added services.

MCB Cash Management

Cash Management provides a wide range of value added services to large corporations through its vast network of online branches. Our structured and customized products enable our customers to realize their sales proceeds swiftly from all over the country, supported by real-time MIS. Cash Management also provides payment solutions through MCB network and through third parties and customized solutions for dividend payouts.

MCB Channel Financing

MCB Channel Financing provides working capital facilities to dealers and vendors of selected companies under a structured product program. This product enables our customer's dealers to leverage themselves and increase their business capacity with their respective business partners.

MCB Local Rupee Drawing Arrangement

Transaction Banking Department at MCB, provides Local Rupee Drawing Arrangement, a product for small banks and financial institutions to use our vast branch network platform to make payments in areas where their own branch network does not exist, thus extending their reach nationwide.

MCB Home Remittance

MCB Home Remittance provides a seamless inflow of foreign remittances credited in the beneficiary's account within minutes. Cash payments can also be made at our designated branches on behalf of XpressMoney, Samba (SpeedCashNow), MoneyGram and Maybank Money Express Malaysia, along with cash payments from other correspondents from all over the world under the brand name of MCB Fast & Easy.

MCB Corporate Financing

MCB Corporate Financing provides access to diversified financing options, including working capital loans, term loans, trade finance services and investment banking.

MCB Project & Structured Finance

MCB Project & Structured Finance involves financing complex projects, usually in an SPV structure, where the loan is tightly structured around the cash flows, risks are allocated amongst various stakeholders, and there is limited or no recourse to the sponsors.

MCB Syndicated Loans and Debt Capital Markets

MCB Syndicated Loans and Debt Capital Markets involves arrangement, underwriting and placement services for significant financing requirements by large corporate and institutional clients to other financial institutions or through the debt capital markets.

MCB Quasi Equity/Hybrid Instruments

MCB Quasi Equity/Hybrid Instruments structure and place a category of debt that has some characteristics of equity such as being unsecured, subordinated or with a potential equity upside.

MCB Equity Capital Raising

MCB Equity Capital Raising relates to raising capital for our clients by offering common or preferred equity to public or private investors, through initial public offers, offers for sale, rights issues and private equity placements.

MCB Advisory Services

Financial and Capital Raising Advisory provides our clients with financial advisory services, commercial structuring support and access to capital resources to help companies successfully finance their business/project.

MCB Islamic Banking

With the help of Shariah specialists, lawyers and professional commercial bankers, MCB Islamic Banking provides Riba Free and Shariah Compliant products and services both on the liability and asset side of the statement of financial position to various customers of all demographic segments with its presence in a growing number of cities. MCB's Islamic Banking products are available to cater the need of Working Capital, Capital Expenditures, International/Local trade and consumer's requirements.

MCB Agri Products

MCB is committed to the farming community to support their national objectives of self sufficiency & food security to the people of Pakistan. Dedicated and specialized staff, supervised by the Agri Credit Division, is posted in lending branches to cater for strong business relationships & facilitation. The bank's extensive branch network in all the provinces and diversified product range extends our reach of agri credit facilities to farmers engaged in any type of activity, encompassing both crop & non crop sectors.



We overwhelmingly cherish and stay committed to support the farmers in view of unparalleled significance of agri sector in our national life aligned with economic priorities of the country and role of our bank as a responsible corporate citizen.

MCB Privilege

A first from a local bank, MCB Privilege through its dedicated, world class Privilege Centers offers a higher level of personalized services, more rewarding in-branch experiences and a wide array of deposit and investment products that are tailored to meet the financial expectations of our affluent clientele. As members of MCB Privilege, customers experience unparalleled advantages that put them ahead of others. MCB's dedicated Privilege Centers await to welcome you in Karachi, Lahore, Islamabad and Multan, with plans to expand to more locations.

MCB Salary Club

A payroll solution designed to make life easy; it simplifies all the monthly payroll related banking needs of employers and opens the door to a world of special offers for employees. Salary Club provides the convenience of having an extensive range of financial services available to employees at their place of work.

MCB Investment Services

Make the most of your wealth with investment opportunities that match your unique financial aspirations. MCB Investment Services offer distribution of mutual funds managed by the leading fund managers of Pakistan. We can suggest the products most suited for your needs, or work with you to create a personalized solution completely focused on your expectations of the capital markets.

MCB Visa Credit Card

MCB offers a complete suite of Classic, Gold and Platinum Visa Credit Cards focusing on providing, superior services, travel privileges & shopping pleasure. It also offers comprehensive insurance & installment plans, reward points and SMS alerts that give a different feel to the world of credit cards. These unique features include i-revolve, which makes variable mark-up rate available to customers allowing them to repay at affordable rates.

MCB Car4U

MCB Car4U not only gets you a car of your own choice but is also affordable with competitive mark-up, flexible conditions, easy processing and above all, no hidden costs.

MCB Instant Finance

With MCB Instant Finance, you can get a loan instantly at any MCB branch against liquid collateral at competitive pricing.

MCB Smart Card

MCB Smart Card opens the opportunity to have access to your funds via multiple banking channels. It enables you to withdraw cash from ATMs across Pakistan and around the world, transfer funds, pay utility and mobile bills and register for mobile and virtual banking services.

MCB Rupee Travelers Cheque

MCB Rupee Travelers Cheque is the best and safest alternate way of carrying cash. It can be used by travelers, businessmen or by the general public in meeting their day to day cash requirements while they travel. It is a safe and secure way to make payments because it gives the purchaser security that even if the cheque is lost it can be refunded. Unlike other modes of

fund/remittance transfer which can only be drawn at a particular branch and can be encashed only at that branch, MCB Rupee Travelers Cheque can be encashed at any of our branches across the nation.

MCB ATMs

MCB has one of the nation's largest ATM networks with 500 ATMs covering 110 cities across the country and still growing. MCB ATMs give you a 24-hours convenience of cash withdrawal, mini-statement, utility bill payments, mobile top-ups, funds transfer services and much more.

MCB Mobile ATM

Through our MCB Mobile ATM we allow for convenient world class banking services. Our innovative MCB Mobile ATM van ensures that we offer our services wherever you are, be it concerts, fairs or any other occasion/special event.

MCB Lockers

MCB Lockers are the best protection for your valuables. Lockers of different capacities are available nationwide.

MCB SMS Banking

With MCB SMS Banking, you can bank on your fingertips. Once you're registered onto the service you can SMS anytime to get account information.

MCB Full-Day Banking

Enjoy the convenience of extended banking hours from 9am to 5pm, including Saturdays at MCB Full-Day Banking branches across the country.

MCB Bancassurance

Combining the best of banking and insurance solutions, MCB Bancassurance has created a one-stop shop for all your financial and insurance needs. Whether you want to save for your child's education or marriage, for the security of dignity after retirement or gaining maximum return on savings, MCB Bancassurance has a plan for you. You can also buy instant insurance coverage through your mobile without any medical assessment.

MCB Call Centre

The simplest way to bank is with the new enhanced 24/7 MCB Call Centre, which blends innovation and convenience to provide banking services that go beyond expectations. MCB Call Centre enables you to manage your VISA Credit & ATM/Debit Cards, confirm account balances & view last 5 transactions, pay utility/mobile phone & MCB Visa Credit Card bills, top-up your mobile, transfer money within MCB network accounts and register complaints. Most importantly it provides you with our very own banking consultant to discuss your financial needs and requirements. Simply call at 111-000-622 and we'll do the rest.

MCB Mobile

MCB Mobile is a quick easy and secure way to recharge mobile phones, transfer money, pay bills and do much more. Visit the nearest MCB ATM or call 111-000-622 to register and logon to www.mcbmobile.com using your mobile phone to start transacting.

MCB Virtual Banking

MCB Virtual Banking Service is a convenient way to access your account(s) 24/7. It is secure, free of cost and lets you do your banking whenever and wherever. This service allows you to transfer funds, pay utility/mobile bills, set up standing order instruction, download account statement and much more.



Corporate Information

Board of Directors

Mian Mohammad Mansha Chairman	(Non-Executive Director)
S.M. Muneer Vice Chairman	(Non-Executive Director)
Tariq Rafi	(Non-Executive Director)
Shahzad Saleem	(Non-Executive Director)
Sarmad Amin	(Non-Executive Director)
Dr. Muhammad Yaqub	(Non-Executive Director)
Dato' Mohammed Hussein	(Non-Executive Director)
Mian Raza Mansha	(Non-Executive Director)
Aftab Ahmad Khan	(Non-Executive Director)
Mian Umer Mansha	(Non-Executive Director)

Muhammad Ali Zeb	(Non-Executive Director)
Dato' Seri Ismail Shahudin	(Non-Executive Director)
M.U.A. Usmani President & Chief Executive Officer	(Executive Director)

Audit Committee

Tariq Rafi – Chairman	(Non-Executive Director)
Dr. Muhammad Yaqub	(Non-Executive Director)
Dato' Mohammed Hussein	(Non-Executive Director)
Aftab Ahmad Khan	(Non-Executive Director)
Muhammad Ali Zeb	(Non-Executive Director)

**Chief Financial Officer**

Salman Zafar Siddiqi

Company Secretary

Abdus S. Sami

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants

Legal Advisors

Khalid Anwer & Co.
Advocates & Legal Consultants

Registered Office

MCB Building, F-6/G-6, Jinnah Avenue, Islamabad.

Principal Office

MCB 15 Main Gulberg, Lahore.

UAN: (042) 111-000-111

PABX: (042) 36041998-9

Website: www.mcb.com.pk

Email: info@mcb.com.pk • investor.relations@mcb.com.pk

Shares Registrar

M/s. THK Associates (Pvt.) Ltd., State Life Building No. 3,
Dr. Ziauddin Ahmed Road, Karachi.

Profile of the Board of Directors



Mian Mohammad Mansha
Chairman

Mr. Mansha is the chairman of Nishat Group which holds diverse and major business interests in textiles, banking, insurance, cement, power, and aviation. Under the umbrella of textiles, Nishat Mills is the largest Textile Group of Pakistan. He has served as the Chairman of MCB since its privatization in 1991. In 2004, he was presented with Pakistan's highest civil award, the Sitara-e-Imtiaz, for his contributions to industrial development. He is a member of Board of Shalamar Medical & Dental College and also serves as the Director of Punjab Board of Investment & Trade (PBIT), Civil Aviation Authority and Engineering Management Foundation (FASAT). In addition, he is the Chairman on the Board of Punjab Coal Mining Company. He was a member of the International Advisory Board at Babson College, Boston, USA.



Mr. S.M. Muneer
Vice Chairman

With experience in sectors ranging from tanneries, textiles and leather garments, Mr. Muneer is a consummate industrialist. He has been awarded with The Best Export Performance trophy by the Federation of Pakistan Chamber of Commerce & Industry (FPCCI), the Gold Medallion Award from the International Export Association, UK and Best Businessman of the Year Award from FPCCI. In addition, he has received the Sitara-e-Isaar and the Sitara-e-Imtiaz in 2006 and 2007 respectively by the President of Pakistan. His contributions and achievements go beyond the economic sphere into the education sector as well. He was awarded an Honorary PhD degree by the Governor of Sindh and is also a member of the Board of Directors of CBM and Greenwich College, Karachi and the Director of Shaukat Khanum Cancer Hospital, Lahore.



Mr. Tariq Rafi

Director

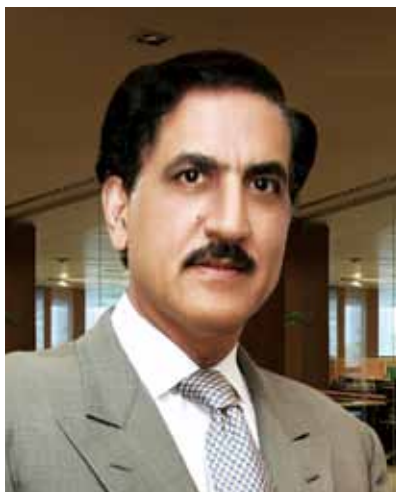
Mr. Tariq Rafi is the Chairman of Siddiqsons Group and is recipient of the coveted civil award Sitara-e-Imtiaz and the Best Businessman of the year award. He is also the Honorary Counsel General of Republic of Serbia. At MCB, he has been on the board since privatization of the bank and presently is the Chairman of the Audit Committee and Member of the Risk Management & Portfolio Review Committee and Member of the Committee on Physical Planning, IT System & Contingency Arrangements. He is also a director on the Board of CDC as MCB nominee.



Mr. Shahzad Saleem

Director

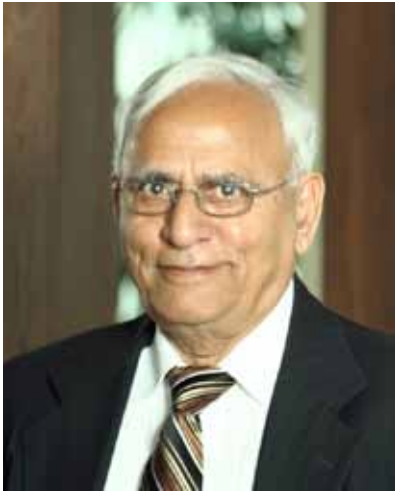
Mr. Shahzad Saleem is an active member of the Risk Management & Portfolio Review Committee and Human Resource Committee at MCB. Along with that, he is serving as the Chief Executive of Nishat Chunian Ltd. and Chairman of Nishat Chunian Power Ltd.



Mr. Sarmad Amin

Director

Mr. Amin has 31 years of business experience in the fields of Construction, Electrical Manufacturing and Textiles. He serves on the board of M/s. Samin Textiles Limited, AREVA T&D Pakistan (Pvt.) Limited and MNET Services (Pvt.) Ltd. At MCB, he is the Chairman of the Committee on Physical Planning, IT Systems & Contingency Arrangements and a member of the Risk Management & Portfolio Review Committee.



Dr. Muhammad Yaqub

Director

Former Governor of SBP (1993-1999), Dr. Yaqub has held various offices for the Government of Pakistan and the IMF. Appointed to the MCB Board in April 2006, he is a member of the Audit Committee, the Business Strategy & Development Committee and the Human Resource Committee.



Dato' Mohammed Hussein

Director

Dato' Mohammed Hussein, joined the MCB Board as an Independent Non-Executive Director in August 2008. He is currently a member of the Audit Committee and the Business Strategy & Development Committee. His experience in the financial sector include 31 years with the Maybank Group where he held various senior management positions including Deputy President and Chief Financial Officer until he retired in 2008. Presently he also sits on the board of a number of companies listed on the Stock Exchange in Malaysia and Singapore, several government-linked institutions in Malaysia and the Exim Bank of Malaysia.



Mian Raza Mansha

Director

Mr. Raza Mansha is a member of the Committee for Business Strategy & Development, Human Resource, Risk Management & Portfolio Review, Physical Planning, and IT Systems & Contingency Arrangements at MCB. In addition, he is also a board member of various other businesses including D.G. Khan Cement Company Limited and Sui Northern Gas Pipelines Limited (SNGPL).



Mr. Aftab Ahmad Khan

Director

Mr. Aftab Ahmad Khan is the Group Director, Finance and Accounts at Nishat Group of Companies, which involves financial planning, strategic decision making and investment appraisals for the group. He is also a fellow Chartered Accountant of the Institute of Chartered Accountants of Pakistan. Mr. Aftab Ahmad Khan has over 47 years of diversified professional experience in various sectors. Presently he serves on the board of Commercial Banking, Textile, Paper, Energy, Hotel and Tourism sectors. He has also served on the Punjab Industrial Development Board and in Public sector organizations such as Ghee, Sugar and Rice mills. At MCB he is a member of the Audit Committee.



Mian Umer Mansha

Director

Mr. Umer Mansha was elected as a Director to the MCB Board in November 1997 and served till September 2007. He was re-elected as a Director at MCB in the 61st AGM held on March 27, 2009. Presently, he is the Chairman of the Risk Management & Portfolio Review Committee and is a member of the Business Strategy & Development Committee at MCB. In addition, he is the Chairman of the Board of Adamjee Insurance Company and a director of the Pakistan Business Council. He is a board member for various other businesses.



Mr. Muhammad Ali Zeb

Director

Mr. Muhammad Ali Zeb is currently the CEO of Adamjee Insurance and has more than 15 years of professional experience in Finance, Insurance & Manufacturing sectors. He was elected as a Director at MCB in the 61st AGM held in March 2009. At MCB, he is a member of the Audit Committee.



Dato' Seri Ismail Shahudin

Director

Dato' Seri Ismail Shahudin was appointed as a Director of Maybank on 15 July 2009. He serves as Chairman of the Nomination and Remuneration Committee and as a member of the Credit Review, Risk Management, and Employee Share Option Scheme Committees of the Board. He was Chairman of Bank Muamalat Malaysia Berhad from 2004 until his retirement in July 2008. He has held senior positions in Citibank, serving both in Malaysia and New York, United Asian Bank and Maybank where he was appointed Executive Director in 1997. He left Maybank in 2002 to assume the position of Group Chief Executive Officer of MMC Corporation Berhad prior to his appointment to the Board of Bank Muamalat Malaysia Berhad. His current directorships in companies within the Maybank Group include as Chairman of Maybank Islamic Bank. He is also a director of several public listed companies which include PLUS Expressways Berhad, Mutiara Goodyear Development Berhad, SMPC Corporation Berhad, EP Manufacturing Berhad, and Aseana Properties Limited, a company listed on the London Stock Exchange.



Mr. M.U.A. Usmani

President / CEO

Mr. M.U.A. Usmani has over 46 years of diverse national and international experience in Corporate, Treasury & FX, Capital Markets, Compliance, Trade Finance, Loan Administration (CAD), Financial Institution and International & Overseas. Having started his career with American Express Bank, Pakistan in 1963, he worked in various capacities before moving to Dubai as Vice President and Manager Correspondent Banking, Gulf and Pakistan. He also served as Acting Country Head of American Express Bank, Pakistan. Later, he joined Deutsche Bank, Pakistan in 1993 as Director Global Markets & General Manager Treasury. His role covered both Treasury & Financial Institution for two years and subsequently evolved to focus on Treasury & Financial Institutions as General Manager Treasury & FI till 1998. During his career with these two foreign banks, Mr. Usmani was deputed on special assignments in New York, London and Frankfurt. He joined MCB Bank in 1999 as Group Head Treasury & FX and Capital Markets. Subsequently, he was assigned the responsibility of Compliance, FI and International & Overseas Branches and retired on December 21, 2006. He rejoined MCB in January 2009 as Group Head, Treasury & FX and was recently appointed as President / CEO of MCB Bank Limited in June 2010. He also enjoyed the privilege of being a member of SBP's DRAF Committee on Foreign Exchange headed by Mr. Azhar Hameed, Country Head, Grindlays Bank along with Mr. Farhat Saeed, Executive Director SBP and was also member of Process Improvement Team (LC) at American Express, New York. Mr. Usmani is also Associate Member of IISP and has attended various courses on different subjects worldwide.

Board Committees

Audit Committee

Meetings held (6)

Members

- | | |
|------------------------------|-------------------------|
| 1. Mr. Tariq Rafi - Chairman | 4. Mr. Aftab Ahmad Khan |
| 2. Dr. Muhammad Yaqub | 5. Mr. Muhammad Ali Zeb |
| 3. Dato' Mohammed Hussein | |

Terms of Reference

The Terms of Reference of the Audit Committee include determination of suitable measures to ensure safeguard of the Bank's assets; review of the Bank's financial results prior to their approval by the Board of Directors and publication thereof, focusing in particular on major judgmental areas, significant audit adjustments, the going concern assumption, changes in accounting policies and practices, compliance with applicable accounting standards and statutory requirements; receiving and reviewing records of related party transactions including those transactions that have not been carried out at an arm's length; determination of adequacy and effectiveness of internal control system including financial and operational controls, accounting system and reporting structure; reviewing statement on internal control systems by the Bank prior to approval thereof by the Board of Directors; reviewing scope and extent of internal audit function; ensuring adequacy of resources at internal audit including appropriateness of placement thereof; considering significant findings of internal investigations including management's response thereto; making recommendations to the Board of Directors for the appointment of the external auditors, agree on the audit fees, review the scope of work, consider resignation / removal of auditors and hold occasional meetings with the auditors to discuss their findings; reviewing Management Letter issued by external auditors and management's response thereto; ensuring co-ordination between external and internal auditors; monitoring significant violations of relevant statutory requirements, adopted best corporate governance practices and internal policies and procedures of the Bank; establishing special projects or other investigations specified by the Board of Directors and considering remittance of any matter to the external auditors or any other external body; maintaining free and open communication between employees and the committee for receipt, retention and processing of complaints on accounting and auditing matters including suspicious and fraudulent activity; considering any other issue or matter as may be assigned by the Board of Directors.

Human Resource Committee

Meetings held (4)

Members

- | | |
|------------------------------------|----------------------|
| 1. Mian Mohammad Mansha - Chairman | 4. Mian Raza Mansha |
| 2. Dr. Muhammad Yaqub | 5. Mr. M.U.A. Usmani |
| 3. Mr. Shahzad Saleem | |

Terms of Reference

The main tasks of the Human Resource Committee are ensuring review of existing policies and revision in these policies as deemed necessary, proper classification and reclassification of employees' pay scales, job description and methods of periodical reviews, development of in-house expertise, approval and revision of organizational setup, setup of latest criterions for recruitment, training and performance appraisals and effective management of information systems to monitor implementation of policies as approved by the Board.

Risk Management and Portfolio Review Committee

Meetings held (5)

Members

- | | |
|--------------------------------|---------------------|
| 1. Mian Umer Mansha - Chairman | 4. Mr. Sarmad Amin |
| 2. Mr. Tariq Rafi | 5. Mian Raza Mansha |
| 3. Mr. Shahzad Saleem | |

Terms of Reference

Main terms of the RM & PR Committee are review of risk management strategies, development of risk management policies and portfolio management parameters, approval and monitoring of limits in respect of credit, market and liquidity risks, monitoring of progress towards Basel II, carrying surveillance functions on behalf of the Board, monitoring of Bank's portfolio and approval of policy framework to be followed by the management for lending operations, write-offs, restructuring and rescheduling.

Business Strategy and Development Committee

Meetings held (5)

Members

- | | |
|------------------------------------|----------------------|
| 1. Mian Mohammad Mansha - Chairman | 5. Mian Raza Mansha |
| 2. S. M. Muneer | 6. Mian Umer Mansha |
| 3. Dr. Muhammad Yaqub | 7. Mr. M.U.A. Usmani |
| 4. Dato' Mohammed Hussein | |

Terms of Reference

Major tasks include review and development of 'Vision & Mission' statements and 'Core Values' for the bank, development of Bank's initiatives relating to business philosophy and acquisition, investment and divestment, capital raising exercise, strategic alliances and brand management, devising short, medium and long term business plans and policies based on strategy, future direction and milestones set by the Board and monitoring the progress of the key strategy initiatives undertaken by the bank.

SBP Report Compliance Monitoring Committee

Meeting held (1)

Members

1. Dr. Muhammad Yaqub - Chairman
2. Mr. Aftab Ahmad Khan
3. Mr. M.U.A. Usmani

Terms of Reference

Review of six monthly reports prepared by the Compliance Group routed through the President on actions taken, on the recommendations and observations of SBP in its Annual Inspection Report, guiding the management in matters pertaining to compliance of SBP's observations, liaison between the Board and the Management with a view to ensure compliance pertaining to the SBP's observations; and making recommendations to the Board, if necessary, for taking decisions on expedient and appropriate disposal of observations of SBP Inspection Report.

Committee on Physical Planning, IT Systems and Contingency Arrangements

Meetings held (7)

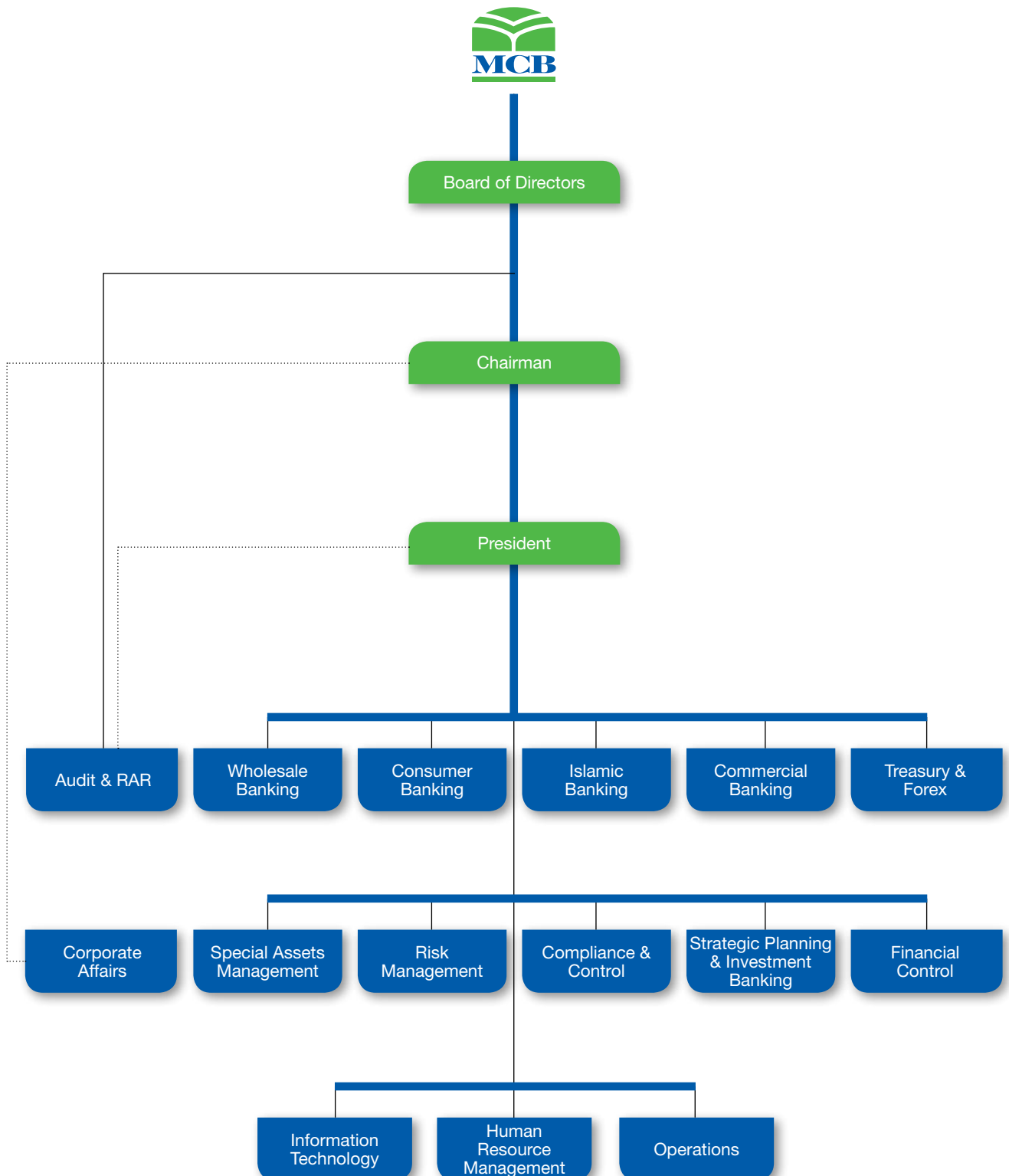
Members

- | | |
|-------------------------------|----------------------|
| 1. Mr. Sarmad Amin - Chairman | 4. Mian Raza Mansha |
| 2. S. M. Muneer | 5. Mr. M.U.A. Usmani |
| 3. Mr. Tariq Rafi | |

Terms of Reference

Development of an overall plan for physical infrastructure, IT system and contingency arrangements for the bank, review and monitoring of all work in progress based on physical planning, monitoring and recommending to the Board the building plans, master development agreements, information technology & contingency arrangements and review of the administrative structures & plans in place to ensure the ongoing health and safety of utilities and physical assets, including land & buildings, IT infrastructure and recommend, as appropriate, changes in plans arising from this review.

Organizational Structure





MCB Management Committee

Standing, Left to Right:

- Mr. Syed Rashid Rahman • Mr. Kamran Zaffar Muggo • Mr. Agha Saeed Khan • Mr. M.U.A. Usmani
- Mr. Mohammad Ramzan • Mr. Azfar Alam Nomani • Mr. Mohammad Nauman Chughtai
- Mr. Salman Zafar Siddiqi • Mr. Ali Munir • Mr. Ahmad Kareem • Mr. Laqa Sarwar



Seated, Left to Right:

• Mr. Imran Maqbool • Mr. Muhtashim Ashai • Mr. Ali Mubashir Kazmi • Mr. Sajid Awan

Management Committees

Management Committee

- | | |
|---------------------------------|----------------------------------|
| 1. Mr. M.U.A. Usmani - Chairman | 9. Mr. Muhtashim Ashai |
| 2. Mr. Ali Munir | 10. Mr. Imran Maqbool |
| 3. Mr. Mohammad Ramzan | 11. Mr. Laqa Sarwar |
| 4. Mr. Agha Saeed Khan | 12. Mr. Salman Zafar Siddiqi |
| 5. Mr. Azfar Alam Nomani | 13. Mr. Syed Rashid Rahman |
| 6. Mr. Ahmad Kareem | 14. Mr. Mohammed Nauman Chughtai |
| 7. Mr. Sajid Awan | 15. Mr. Kamran Zafar Muggo |
| 8. Mr. Ali Mubashir Kazmi | |

Assets & Liabilities Committee

- | | |
|---------------------------------|----------------------------------|
| 1. Mr. M.U.A. Usmani – Chairman | 6. Mr. Muhtashim Ashai |
| 2. Mr. Ali Munir | 7. Mr. Imran Maqbool |
| 3. Mr. Mohammad Ramzan | 8. Mr. Salman Zafar Siddiqi |
| 4. Mr. Agha Saeed Khan | 9. Mr. Syed Rashid Rahman |
| 5. Mr. Ali Mubashir Kazmi | 10. Mr. Mohammed Nauman Chughtai |

IT Steering Committee

- | | |
|---------------------------------|-----------------------------|
| 1. Mr. M.U.A. Usmani - Chairman | 5. Mr. Sajid Awan |
| 2. Mr. Agha Saeed Khan | 6. Mr. Muhtashim Ashai |
| 3. Mr. Imran Maqbool | 7. Mr. Salman Zafar Siddiqi |
| 4. Mr. Ali Munir | 8. Mr. Ali Mubashir Kazmi |

Disciplinary Action Committee

- | | |
|--------------------------------|-----------------------|
| 1. Mr. Ahmed Kareem - Chairman | 4. Mr. Muhammad Qasim |
| 2. Mr. Agha Saeed Khan | 5. Mr. Usman Hassan |
| 3. Mr. Azfar Alam Nomani | 6. Mr. Laqa Sarwar |

Write-off Committee

- | | |
|---------------------------------|---------------------------------|
| 1. Mr. M.U.A. Usmani - Chairman | 5. Mr. Muhtashim Ashai |
| 2. Mr. Ali Munir | 6. Mr. Mohammed Nauman Chughtai |
| 3. Mr. Salman Zafar Siddiqi | 7. Mr. Laqa Sarwar |
| 4. Mr. Imran Maqbool | |

Investment Committee

- | | |
|---------------------------------|-----------------------------|
| 1. Mr. M.U.A. Usmani - Chairman | 4. Mr. Muhtashim Ashai |
| 2. Mr. Ali Munir | 5. Mr. Salman Zafar Siddiqi |
| 3. Mr. Muhammad Ramzan | 6. Mr. Abdus S. Sami |

Purchase Committee

- | | |
|-----------------------------|------------------------|
| 1. Mr. Ali Munir - Chairman | 3. Mr. Agha Saeed Khan |
| 2. Mr. Salman Zafar Siddiqi | 4. Mr. Abdus S. Sami |

Corporate Profile of the Bank



MCB is one of the oldest banks of Pakistan, incorporated in 1947. It was privatized in 1991 to the Nishat Group. To accede to international capital markets, the bank launched Global Depositary Receipts (GDRs) in 2006. It was the first Pakistani bank that got listed its shares on the London Stock Exchange.

In 2008, the Bank entered into a strategic partnership with Maybank, Malaysia, which owns 20% stake in it through Mayban International Trust (Labuan) Berhad.

Subsidiaries

MCB Financial Services Limited

Holding: 99.999%

Profile: Float, administer and manage modaraba funds, modarabas and also acts as trustees of various mutual funds.

MNET Services (Private) Limited

Holding: 99.950%

Profile: One of the largest service providers for Electronic Transactions to various financial institutions / banks including related services in Information Technology, software and data processing.

MCB Trade Services Limited

Holding: 100%

Profile: Provides agency services trade transactions.

MCB Asset Management Company Limited

Holding: 99.990%

Profile: Asset management, investment advisory, portfolio management, equity research and underwriting.

“MCB Leasing” Closed Joint Stock Company, Azerbaijan

Holding: 95.000%

Profile: It leases various types of industrial equipment, public transports, real estate and retail auto leases.

With reference to significant holding, the following entities are associates of the Bank.

First Women Bank Limited

Holding: 26.78%

Adamjee Insurance Company Limited

Holding: 29.13%

Chairman's Message



It gives me immense pleasure to present the results for the year ended December 31, 2010.

The results are reflective of our ongoing commitment in meeting the expectation of the people who invest and trust in us. I am proud to state that despite the economic difficulties, we have continued to develop our franchise. A clear vision, innovative products, a vast range of services, committed team of professionals, efficient deployment, use of leading edge technology and strict regulatory compliance have been the bedrock of our success.

With the privilege of having an ethics based and culture driven foundation and a talented management, we will continue to capitalize different opportunities and meet the challenges with willful enthusiasm and go beyond the targeted milestones.

Mian Mohammad Mansha
Chairman

President's Review



MCB has once again delivered an excellent year of performance. Our pursuit of excellence goes beyond barriers and we believe in creating and meeting newer milestones each year. The Bank remains committed in participating in every possible technological, product and service opportunity while managing its risk profile with the highest level of efficiency and prudence. We believe in expansion, not only in terms of physical outreach but also making the utmost use of improved technological advancements. With the cooperation extended by regulatory authorities, we shall expand the bank further into the international markets.

The country, as known, has undergone severe market, economic and political crisis since the later half of the decade of the new century. Pakistan, especially, has grown a dire victim of social and religious chaos. The unrest coupled with the challenging circumstances of producing and controlling resources while coping up with the upward global inflation have had huge bearing on the infrastructure, manufacturing concerns and the banking sector. Nonetheless, the Bank stands strong in terms of its risk management policies, net spreads, capital adequacy, overall profitability and equity base. We were able to effectively control the assets quality through our prudent strategies with in significant increase in the infected portfolio during the financial year 2010.

During 2010, our product and investment services menu was further strengthened as we introduced more customized facilities to the customers. The efficiency of our main business groups helped the bank achieve the budgeted targets set for 2010, outperforming the market in many aspects. Keeping in view the sensitivity of the consumer sector, the Bank restructured its consumer business area, of which positive results are expected in the upcoming year.

I am pleased to announce that MCB delivered a net profit of Rs. 17B, while we also continue to remain competitive in terms of the total asset base of Rs. 568B. Being the leaders in maintaining a low cost deposit franchise, the bank's CASA base stood at 81%. The total gross advances of the bank posted a growth of 2% from the previous year end and stood at Rs. 274B. Our low cost franchise is a major factor to help us stand as the efficient cost controlled profitable Bank in the country.

The market capitalization of the Bank continued to remain the highest in the banking industry. And in 2010 as well, we traded at the highest price on the stock exchange.

Our distinctively affluent sector launch, MCB Privilege, enhanced during the year 2010 as we classically managed to capture significant share in the market as being pioneers in the area. Similarly, our leadership in Mobile Banking reaped results beyond our expectations as the customer portfolio doubled, transaction levels tripled and the volume crossed Rs. 3B. Proudly, we were also therefore the winner of the Best Bank Led Mobile Money Transfer Programme at Mobile Money Transfer Forum (MMT) including several other nominations.

It has undoubtedly been a great journey of 63 years as leading Bank in the country and to have evolved further and further into building an unbreakable trust with our stakeholders. It is with the perfect combination of excellent leadership and team build culture that we, today, stand strong with the transformation into a globally recognized Bank.

For MCB;

- The opportunistic approach has set grounds for success in achieving the targeted share in the corporate, SME and niche segments. We will continue to resort our focus into further expansion and diversification of portfolio into new businesses, vis-à-vis growing focus in trade business areas including service, pricing and foreign exchange in coming times, while keeping the tradition of becoming deep-rooted and stronger.
- The close eye on leadership in transactional and service level excellence is deeply impeded in our mission and objectives and optimum use of ADCs will continue to be central to our success in operational efficiency and outreach.
- Its employees are the core resource in our success. In 2010, the bank further improved on its HR policies and would further devise policies that are not only competitive in the market but also ensure employee satisfaction in all aspects. Going forward, we intend to place special focus in terms of benefits and compensation for our middle management, forming major portion of our total workforce, who is integral to the successful implementations of the visions and benchmarks set.
- The legal, corporate and social responsibility is integral to the ongoing concern of our business. We remain committed in ensuring compliance to all statutory and standard laws and regulations and would continue to serve the industry in the best interest of all.

In 2011, while honoring our achievements for 2010, we will further strive to deliver the best in all our services as well as leading new initiatives. We are adamant in converting weaknesses into strengths to lead further, threats into opportunities to recover stronger, and from benchmarking to become benchmarked.

I would like to take the opportunity to once again thank and congratulate the Chairman, Board of Directors and our foreign partners for their willful determination, focused involvement and ongoing commitment in bringing MCB BANK LIMITED to the level and position it deserves.

The year 2010, was a remarkable year and we look forward towards 2011 as the year of greater success and continued achievements.

With Best Regards,



M.U.A. Usmani

President

MCB Bank Limited

February 10, 2011

Key Performance Indicators

		2010	2009	Variance	
				compared to 2009	
				Amount	%
Financial					
Gross Advances	Rs. In Mln	274,144	269,722	4,422	2%
Investments	“	213,061	167,134	45,926	27%
Deposits	“	431,372	367,605	63,767	17%
Shareholders Equity	“	69,181	61,076	8,105	13%
Net Interest Income	“	36,834	35,779	1,055	3%
Non Interest Income	“	6,265	5,643	622	11%
Operating Expenses	“	13,160	10,801	2,359	22%
Provisions	“	3,685	7,465	(3,780)	-51%
Profit Before Taxation	“	26,253	23,155	3,098	13%
Profit After Taxation	“	16,873	15,495	1,379	9%
Non Financial					
No. of customers	Absolute	4,232,529	3,893,531	338,998	9%
No. of new branches opened	“	51	21	30	143%
No. of new accounts opened	“	470,505	364,723	105,782	29%
No. of ATM cards and credit cards issued	“	266,569	144,832	121,737	84%
No. of permanent employees	“	9,479	9,397	82	1%
No. of virtual banking customers	“	71,408	65,265	6,143	9%
No. of mobile banking customers	“	66,086	24,816	41,270	166%
Key Financial Ratios					
Earnings Per Share	Rs.	22.20	20.38		
Dividend Per Share	“	11.50	11.00		
Bookvalue Per Share	“	91.00	80.34		
Share Price - Dec. 31	“	228.54	219.68		
Market Capitalisation	Rs. In Bln	174	152		
Price/Earnings Ratio	Times	10.30	10.78		
Return on Equity	%	25.91%	27.35%		
Return on Assets	“	3.13%	3.25%		
Capital Adequacy Ratio	“	22.07%	19.07%		

Six Years' Financial Summary 2005 - 2010

(Rupees in Millions)

	2010	2009	2008	2007	2006	2005
Profits						
Mark-up / return earned	54,821	51,616	40,044	31,787	25,778	17,756
Mark-up / return expensed	17,988	15,837	11,561	7,866	4,525	2,781
Fund based income	36,834	35,779	28,483	23,921	21,253	14,975
Fee, Commission, brokerage & FX income	5,310	4,409	4,537	4,328	3,573	4,406
Dividend and capital gains	956	1,234	1,255	2,120	1,418	1,348
Total income	43,099	41,422	34,275	30,369	26,244	20,728
Operating expenses	13,160	10,801	8,365	6,000	6,549	6,638
Operating profit before tax and provision	29,938	30,620	25,910	24,369	19,695	14,090
Provisions / write-off	3,685	7,465	4,042	3,061	1,194	1,072
Profit before tax	26,253	23,155	21,868	21,308	18,501	13,018
Profit after tax	16,873	15,495	15,375	15,266	12,142	8,922
Cash dividends	8,743	7,602	7,225	7,854	3,960	1,715
Bonus shares	760	691	628	-	819	853
Statement of Financial Position						
Authorised capital	10,000	10,000	10,000	10,000	6,500	6,500
Paid up capital	7,602	6,911	6,283	6,283	5,463	4,265
Reserves	40,163	38,386	36,769	34,001	24,662	9,055
Unappropriated Profit	21,416	15,779	9,193	5,131	5,531	4,990
Shareholder's equity	69,181	61,076	52,245	45,414	35,657	18,311
Surplus on revaluation of assets - net of tax	10,024	8,664	6,191	9,706	5,188	5,424
Net Assets	79,204	69,740	58,436	55,120	40,844	23,734
Total Assets	567,553	509,224	443,616	410,486	342,108	298,781
Earning Assets	494,605	444,188	380,187	343,173	292,639	260,948
Gross Advances	274,144	269,722	272,847	229,733	206,848	188,140
Advances - net of provisions	254,552	253,249	262,135	218,961	198,239	180,323
Non-Performing Loans (NPLs)	24,544	23,239	18,269	10,725	8,571	8,396
Investments	213,061	167,134	96,632	113,089	63,486	69,481
Total Liabilities	488,349	439,484	385,180	355,366	301,264	275,046
Deposits & other accounts	431,372	367,605	330,182	292,098	257,462	229,342
Current & Saving Deposits (CASA)	351,298	304,953	268,501	259,896	224,165	216,046
Borrowings	25,685	44,662	22,664	39,407	23,943	27,378
Interest bearing Liabilities	305,902	283,369	240,470	232,398	194,363	177,924
Contingencies and Commitments	136,246	119,922	266,251	213,317	160,843	80,427
Financial Ratios						
Profit before tax ratio (PBT/ total income)	60.91%	55.90%	63.80%	70.16%	70.49%	62.80%
Gross Spread (NIM/Interest Income)	67.19%	69.32%	71.13%	75.26%	82.44%	84.34%
Non interest income to total income	14.54%	13.62%	16.90%	21.23%	19.02%	27.76%
Income/ expense ratio (excl. provisions) Times	3.27	3.83	4.10	5.06	4.01	3.12
Return on average equity (ROE)	25.91%	27.35%	31.49%	37.66%	45.00%	64.87%
Return on average assets (ROA)	3.13%	3.25%	3.60%	4.06%	3.79%	3.20%
Return on Capital Employed (ROCE)	25.91%	27.35%	31.49%	37.22%	42.48%	58.12%
Earnings per share (EPS before tax) ***	34.53	30.46	28.76	28.03	24.34	17.12
Earnings per share (EPS after tax) ***	22.20	20.38	20.22	20.08	15.97	11.74
Gross Advances/ deposits ratio	63.55%	73.37%	82.64%	78.65%	80.34%	82.03%
Net Advances/ deposits ratio	59.01%	68.89%	79.39%	74.96%	77.00%	78.63%
Breakup value per share (excl. surplus on rev. of assets) ***	91.00	80.34	68.72	59.74	46.90	24.09
Breakup value per share (excl. surplus on rev. of fixed assets) ***	91.71	80.86	65.96	61.84	49.12	26.41
Breakup value per share (incl. surplus on rev. of assets) ***	104.19	91.74	76.87	72.51	53.73	31.22
Earning assets to total assets ratio	87.15%	87.23%	85.70%	83.60%	85.54%	87.34%
Earning assets to Interest bearing Liabilities Times	1.62	1.57	1.58	1.48	1.51	1.47
Weighted Average Cost of Deposits	3.96%	3.97%	3.03%	2.15%	1.19%	0.70%
CASA to Total Deposits	81.44%	82.96%	81.32%	88.98%	87.07%	94.20%
NPLs to Gross advances ratio	8.95%	8.62%	6.70%	4.67%	4.14%	4.46%
Coverage Ratio (Specific provision / NPLs)	77.13%	67.47%	54.17%	68.31%	69.46%	65.92%
Assets to Equity Times	8.20	8.34	8.49	9.04	9.59	16.32
Total Assets per share Times	7.47	7.37	7.06	6.53	6.26	7.00
Deposits to shareholder equity Times	6.24	6.02	6.32	6.43	7.22	12.53

(Rupees in Millions)

		2010	2009	2008	2007	2006	2005
Risk Adequacy							
Tier I Capital		67,701	59,896	51,301	44,199	35,376	17,914
Risk Weighted Assets (RWA)		330,135	337,417	329,537	308,170	218,062	190,221
Tier I to RWA		20.51%	17.75%	15.57%	14.34%	16.22%	9.42%
Capital Adequacy Ratio	**	22.07%	19.07%	16.28%	16.73%	18.65%	12.54%
Net Return on Average RWA		5.06%	4.65%	4.82%	5.80%	5.95%	4.69%
Dividend Ratios							
Cash Dividend Per Share		11.50	11.00	11.50	12.50	7.25	4.02
Bonus Shares Issued		10.00%	10.00%	10.00%	0.00%	15.00%	20.00%
Dividend Yield Ratio (based on cash dividend)		5.03%	5.01%	5.14%	3.13%	2.95%	2.40%
Dividend Payout Ratio		56.32%	53.52%	51.08%	51.45%	39.36%	28.78%
Share Information							
Market value per share - Dec 31	Rs.	228.54	219.68	125.81	399.95	246.10	167.80
High - during the year	Rs.	233.80	244.00	494.80	434.60	284.50	175.50
Low - during the year	Rs.	173.04	75.00	125.81	244.05	150.30	50.50
Market Capitalisation		173,740	151,822	79,044	251,279	134,451	71,572
Price to book value (excl. surplus on rev. of assets) ratio	Times	2.51	2.73	1.66	6.09	4.77	6.33
Price to earning ratio	Times	10.30	10.78	5.66	18.11	14.01	13.00
Industry Share							
Deposits		8.42%	8.50%	8.55%	9.74%	8.58%	8.62%
Advances		7.85%	8.24%	8.63%	9.53%	8.58%	9.20%
Total Assets		8.37%	8.52%	8.51%	10.12%	8.43%	8.64%
Market Capitalisation		24.10%	22.35%	18.59%	17.50%	16.22%	14.81%
Consolidated							
Total Assets		570,482	511,742	445,286	412,901	343,178	299,712
Shareholders' Equity		71,228	63,120	54,121	47,338	36,404	18,660
Net Assets		81,999	72,313	60,132	57,547	42,185	24,673
Profit (before tax)		26,510	23,349	21,887	22,526	18,931	13,341
Profit (after tax)		16,874	15,665	15,323	16,442	12,541	9,214
Return on Assets		3.12%	3.27%	3.57%	4.35%	3.90%	3.30%
Return on Equity		25.11%	26.72%	30.21%	39.27%	45.55%	66.02%
Earnings per share	***	22.20	20.61	20.16	21.63	16.50	12.12
Breakup value per share (excl. surplus on rev. of assets)	***	93.69	83.03	71.19	62.27	47.89	24.55
Capital Adequacy Ratio	**	22.04%	19.10%	16.37%	16.69%	19.13%	12.79%
Per Branch							
Gross Advances		242.18	249.51	257.40	223.91	208.10	197.63
Deposits		381.07	340.06	311.49	284.70	259.02	240.91
CASA		310.33	282.10	253.30	253.31	225.52	226.94
PBT		23.19	21.42	20.63	20.77	18.61	13.67
Non Financial Information							
Number of branches*		1,132	1,081	1,060	1,026	994	952
Number of permanent employees*		9,479	9,397	10,160	9,721	9,011	9,377
ATMs*		493	495	370	349	263	234

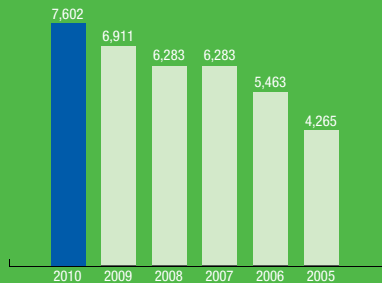
* Absolute numbers

** 2005 and 2006 based on BASEL I framework

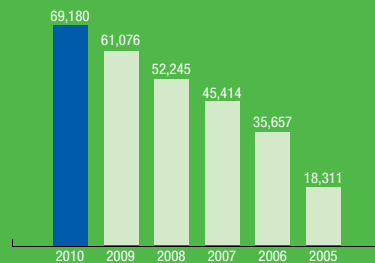
*** Adjusted for prior years to reflect bonus shares issued during 2010

Six Years' Growth Summary 2005 - 2010

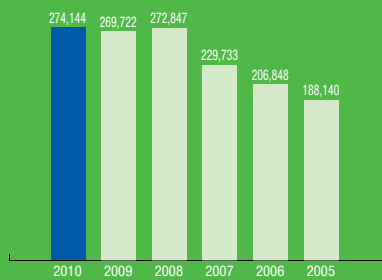
Paid up Capital
(Rs. in Millions)



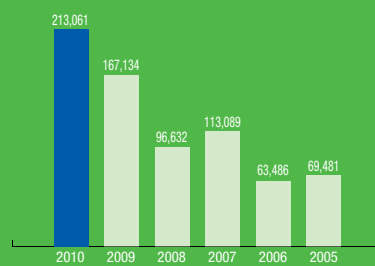
Shareholders' Equity
(Rs. in Millions)



Gross Advances
(Rs. in Millions)



Investments
(Rs. in Millions)

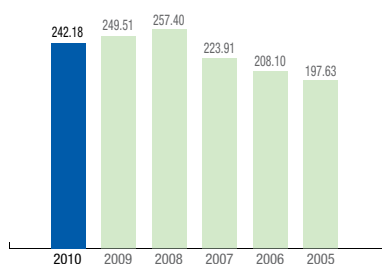


Deposits
(Rs. in Millions)

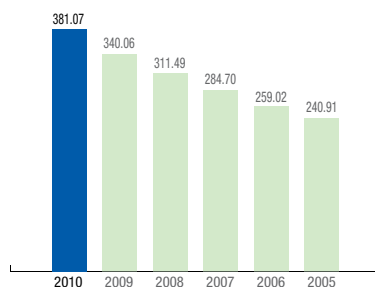


Per Branch Performance

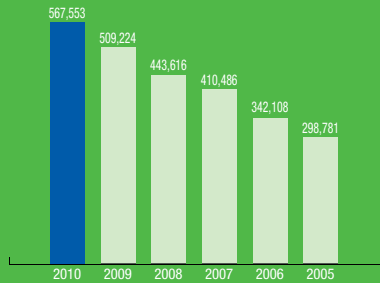
Gross Advances
(Rs. in Millions)



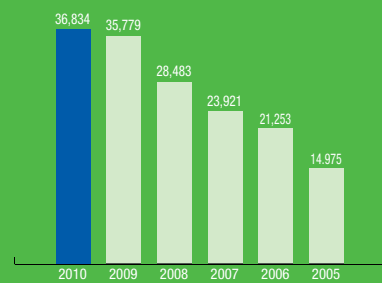
Deposits
(Rs. in Millions)



Total Assets
(Rs. in Millions)



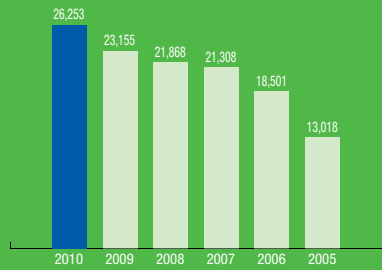
Fund Based Income
(Rs. in Millions)



Non Markup Income
(Rs. in Millions)



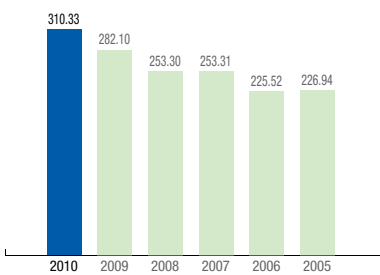
Profit Before Tax
(Rs. in Millions)



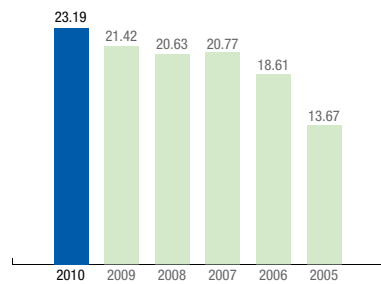
Profit After Tax
(Rs. in Millions)



CASA
(Rs. in Millions)

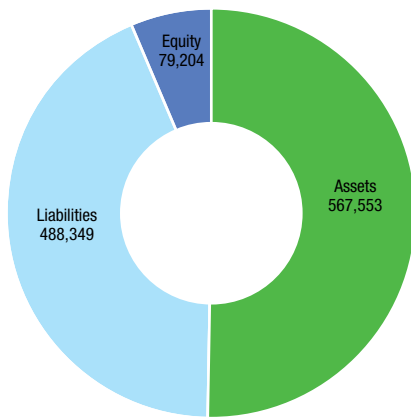


PBT
(Rs. in Millions)

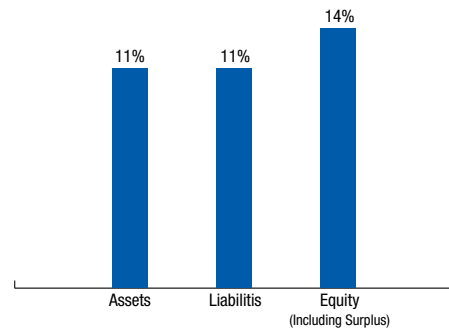


Graphical Presentation of Financial Statement

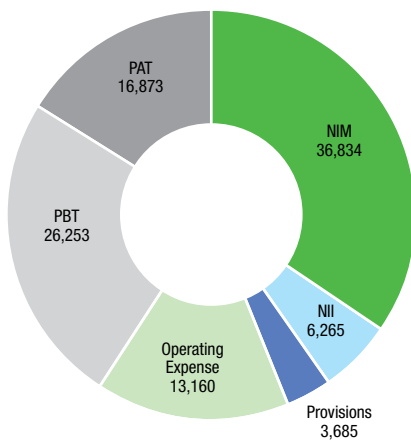
Statement of Financial Position
(Rs. in Million)



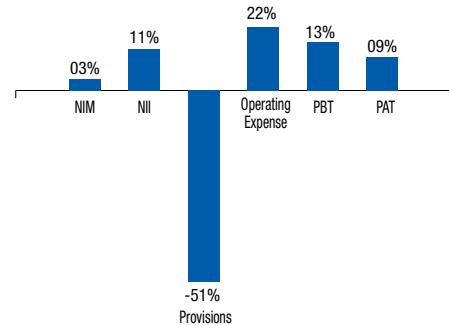
Variance during the FY10



Profit & Loss
(Rs. in Million)

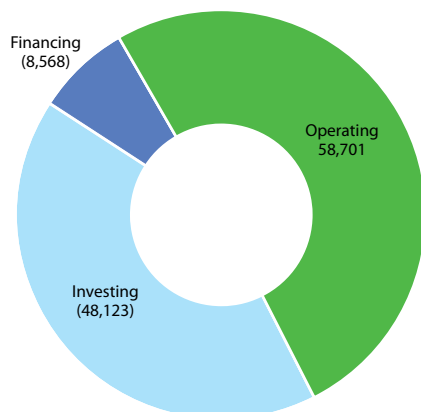


Variance during the FY10

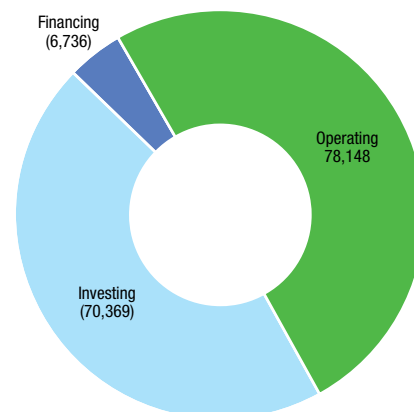


Cash Flows
(Rupees in Million)

2010



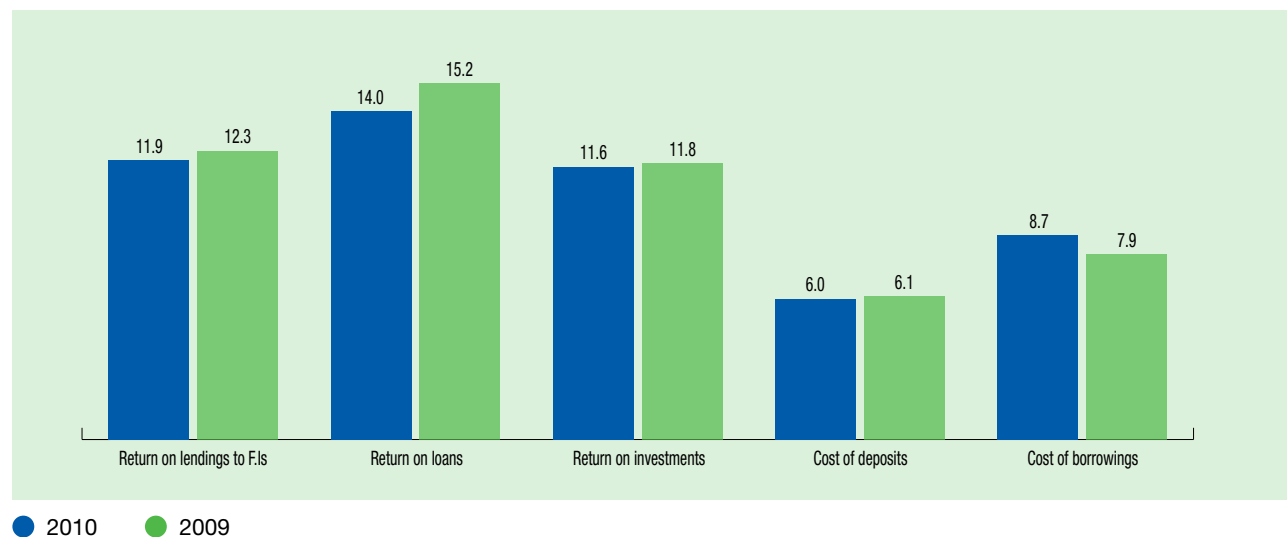
2009



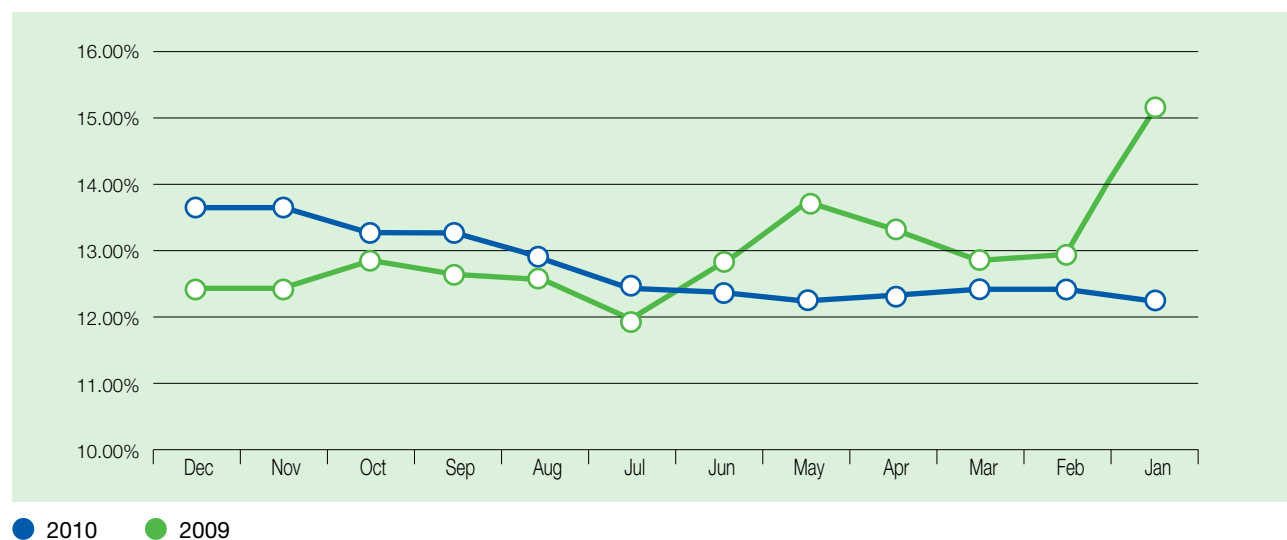
Key Interest Bearing Assets and Liabilities

	2010			2009		
	Avg. Vol (Mln)	Effective Interest Rate %	Interest (Mln)	Avg. Vol (Mln)	Effective Interest Rate %	Interest (Mln)
Interest Earning Assets						
Lendings to Financial Institutions	13,994	11.9	1,669	9,546	12.3	1,174
Gross Advances (excluding NPL's)	235,211	14.0	32,816	239,433	15.2	36,414
Gross Investments (excluding equity investments)	174,499	11.6	20,320	117,719	11.8	13,894
Interest Bearing Liabilities						
Deposits (excluding current deposits)	261,830	6.0	15,806	225,908	6.1	13,867
Borrowings	17,481	8.7	1,525	18,986	7.9	1,498

Effective Interest Rate on Assets and Liabilities

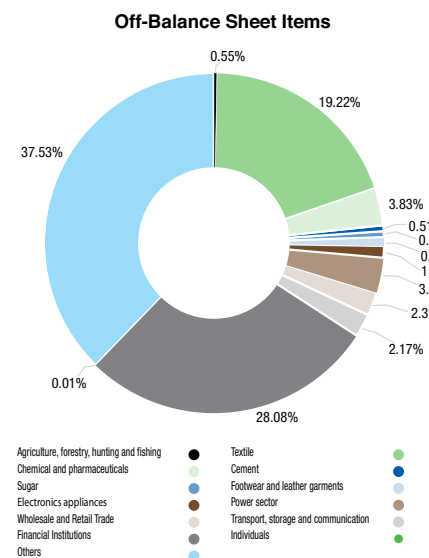
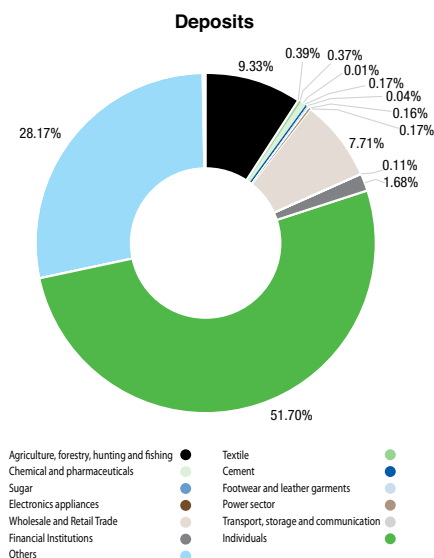
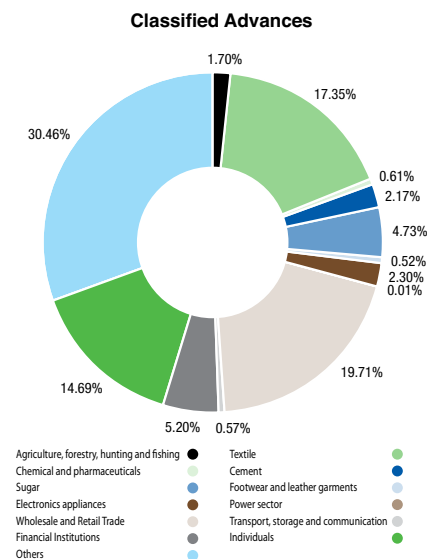
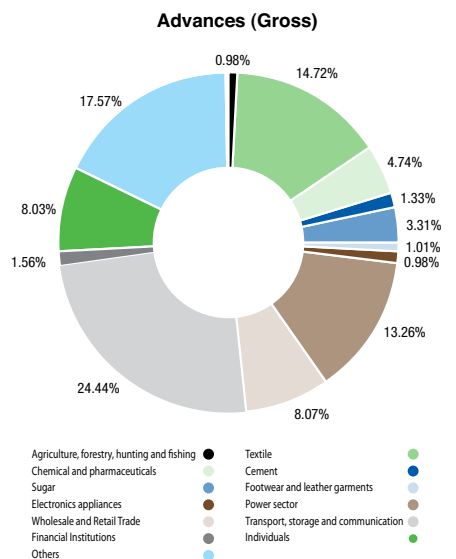


KIBOR – 6 Months



Concentration of Advances, Deposits and Off-Balance Sheet Items - December 31, 2010

Segments by class of business	Advances (Gross)		Classified Advances		Deposits		Off-balance sheet items	
	Rs. In Mln	%	Rs. In Mln	%	Rs. In Mln	%	Rs. In Mln	%
Agriculture, forestry, hunting and fishing	2,700	0.98	417	1.70	40,237	9.33	755	0.55
Textile	40,354	14.72	4,259	17.35	1,669	0.39	26,186	19.22
Chemical and pharmaceuticals	12,991	4.74	149	0.61	1,600	0.37	5,219	3.83
Cement	3,648	1.33	532	2.17	31	0.01	695	0.51
Sugar	9,063	3.31	1,160	4.73	728	0.17	734	0.54
Footwear and leather garments	2,782	1.01	128	0.52	165	0.04	1,017	0.75
Electronics appliances	2,679	0.98	565	2.30	679	0.16	1,517	1.11
Power sector	36,348	13.26	2	0.01	725	0.17	4,618	3.39
Wholesale and Retail Trade	22,120	8.07	4,837	19.71	33,258	7.71	3,143	2.31
Transport, storage and communication	67,014	24.44	139	0.57	461	0.11	2,952	2.17
Financial Institutions	4,269	1.56	1,275	5.20	7,255	1.68	38,263	28.08
Individuals	22,007	8.03	3,605	14.69	223,040	51.70	18	0.01
Others	48,169	17.57	7,476	30.46	121,524	28.17	51,127	37.53
Total	274,144	100.00	24,544	100.00	431,372	100.00	136,246	100.00



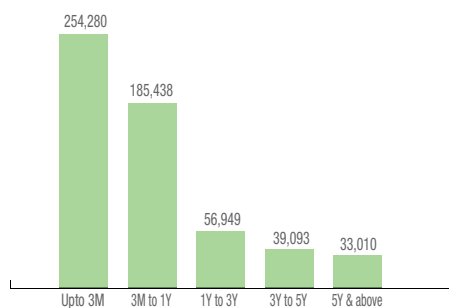
Maturities of Assets and Liabilities - December 31, 2010

(Rupees in Millions)

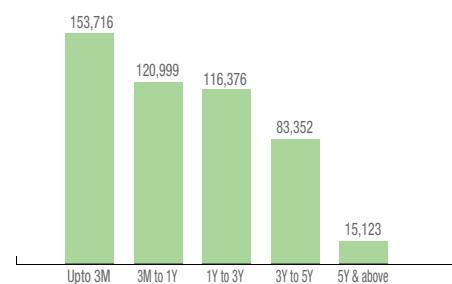
	Total	Upto 3M	3M to 1Y	1Y to 3Y	3Y to 5Y	5Y & above
Assets						
Cash and balances with treasury banks	45,407	45,407	–	–	–	–
Balances with other banks	1,479	1,479	–	–	–	–
Lendings to financial institutions	4,402	1,510	2,892	–	–	–
Investments - net	213,061	111,239	84,413	10,471	784	6,154
Advances - net	254,551	83,563	93,547	43,690	22,173	11,578
Operating fixed assets	20,947	293	879	2,345	2,345	15,085
Deferred tax assets	1,218	82	407	443	93	193
Other assets - net	27,705	10,707	3,300	–	13,698	–
	568,770	254,280	185,438	56,949	39,093	33,010
Liabilities						
Bills payable	10,266	10,266	–	–	–	–
Borrowings	25,685	18,579	6,023	1,083	–	–
Deposits and other accounts	431,372	115,687	111,529	112,994	78,024	13,138
Deferred tax liabilities	6,152	55	166	203	4,594	1,133
Other liabilities	16,092	9,129	3,281	2,096	734	852
	489,566	153,716	120,999	116,376	83,352	15,123

* Maturities of deposits are based on the working prepared by the Assets and Liabilities Management Committee (ALCO) of the Bank

Assets
(Rs. in Millions)



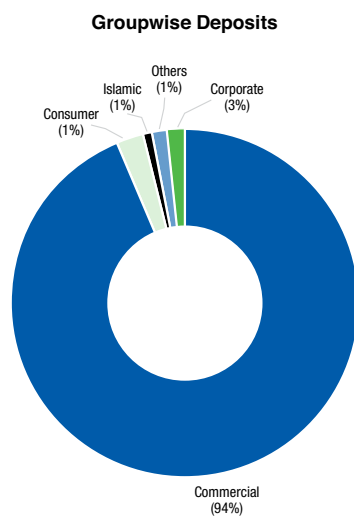
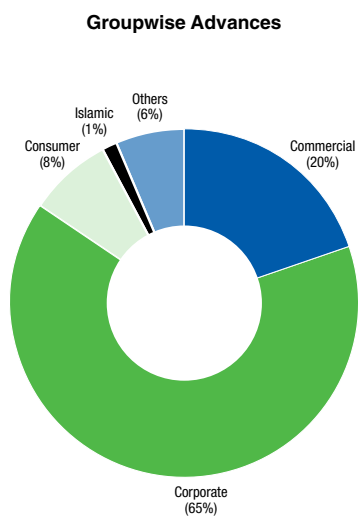
Liabilities
(Rs. in Millions)



Groupwise Performance

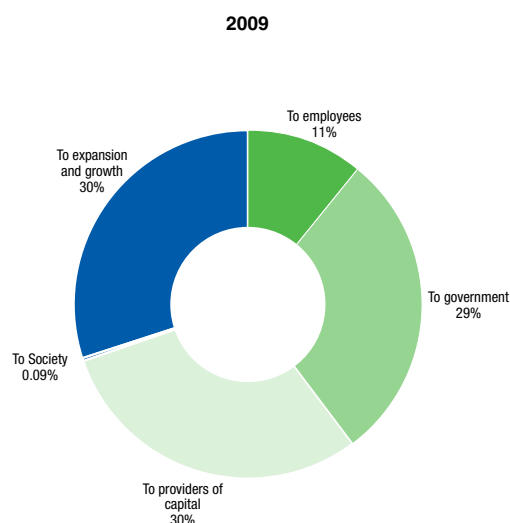
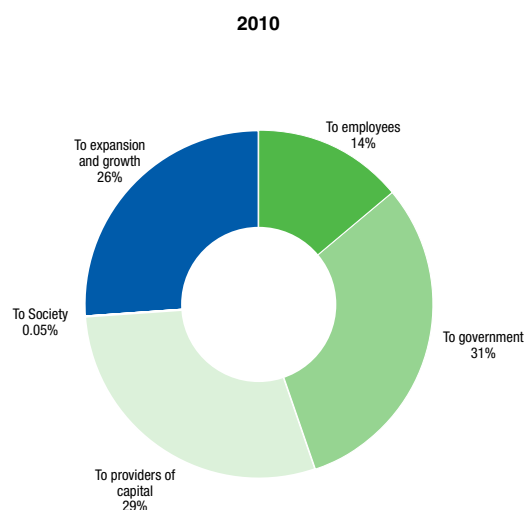
	2010 Rs. in Mln	2009 Rs. in Mln	Variance
Advances			
Commercial Branch Banking Group	54,430	49,795	9%
Corporate Banking Group	177,690	173,066	3%
Consumer Banking Group	21,223	27,494	-23%
Islamic Banking Group	3,731	3,505	6%
Others	17,070	15,862	8%
Total Gross Advances	274,144	269,722	2%
Deposits			
Commercial Branch Banking Group	404,095	343,146	18%
Corporate Banking Group	11,408	12,174	-6%
Consumer Banking Group	3,085	1,607	92%
Islamic Banking Group	6,183	1,957	216%
Others	6,601	8,721	-24%
Total Deposits	431,372	367,605	17%

Composition as of December 31, 2010



Statement of Value Added

	2010 Rs. in Mln	%	2009 Rs. in Mln	%
Value Added				
Net interest income	36,834		35,779	
Non interest income	6,265		5,643	
Operating expenses excluding staff costs, depreciation, amortization, donations and WWF	(6,893)		(6,208)	
Provision against advances, investments & others	(3,685)		(7,465)	
Value added available for distribution	32,521		27,749	
Distribution of value added				
To employees				
Remuneration, provident fund and other benefits	7,775	23.91%	6,966	25.13%
Pension fund reversal	(3,220)	-9.90%	(3,923)	-14.15%
	4,555	14.01%	3,043	10.98%
To government				
Worker welfare fund	525	1.61%	463	1.67%
Income tax	9,380	28.84%	7,660	27.63%
To providers of capital				
Dividends to shareholders	9,503	29.22%	8,293	29.91%
To Society				
Donations	15	0.05%	25	0.09%
To expansion and growth				
Depreciation	1,012		909	
Amortization	160		153	
Retained earnings	7,370		7,202	
	8,543	26.27%	8,265	29.78%
	32,521	100.00%	27,749	100.00%



Six Years' Vertical Analysis – Statement of Financial Position / Profit & Loss

	2010		2009		2008		2007		2006		2005	
	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%
Statement of Financial Position												
Assets												
Cash and balances with treasury banks	45,407	8%	38,775	8%	39,631	9%	39,684	10%	32,466	9%	23,666	8%
Balances with other banks	1,479	0%	6,010	1%	4,043	1%	3,808	1%	6,577	2%	1,466	0.5%
Lendings to financial institutions	4,402	1%	3,000	1%	4,100	1%	1,051	0.3%	21,082	6%	9,999	3%
Investments	213,061	38%	167,134	33%	96,632	22%	113,089	28%	63,486	19%	69,481	23%
Advances	254,552	45%	253,249	50%	262,135	59%	218,961	53%	198,239	58%	180,323	60%
Operating fixed assets	20,947	4%	18,015	4%	17,264	4%	16,024	4%	9,054	3%	8,182	3%
Deferred tax assets	-	-	-	-	-	-	-	-	172	0%	192	0%
Other assets	27,705	5%	23,040	5%	19,810	4%	17,869	4%	11,031	3%	5,472	2%
	567,553	100%	509,224	100%	443,616	100%	410,486	100%	342,108	100%	298,781	100%
Liabilities												
Bills payable	10,266	2%	8,201	2%	10,551	2%	10,479	3%	7,090	2%	8,537	3%
Borrowings	25,684	5%	44,662	9%	22,664	5%	39,407	10%	23,943	7%	27,378	9%
Deposits	431,372	76%	367,605	72%	330,182	74%	292,098	71%	257,462	75%	229,342	77%
Sub-ordinated loan	-	-	-	-	-	-	479	0.1%	1,597	0%	1,598	1%
Deferred tax liabilities	4,934	1%	3,197	1%	437	0%	1,180	0.3%	-	-	-	-
Other liabilities	16,092	3%	15,819	3%	21,346	5%	11,722	3%	11,171	3%	8,192	3%
	488,348	86%	439,484	86%	385,180	87%	355,366	87%	301,264	88%	275,047	92%
Net assets	79,204	14%	69,740	14%	58,436	13%	55,120	13%	40,844	12%	23,734	8%
Represented by												
Share capital	7,602	1%	6,911	1%	6,283	1%	6,283	2%	5,463	2%	4,265	1%
Reserves	40,163	7%	38,386	8%	36,769	8%	34,001	8%	24,662	7%	13,834	5%
Unappropriated profit	21,415	4%	15,779	3%	9,193	2%	5,131	1%	5,531	2%	211	0.1%
Surplus on revaluation of assets - net of tax	10,024	2%	8,664	2%	6,191	1%	9,706	2%	5,188	2%	5,424	2%
	79,204	14%	69,740	14%	58,436	13%	55,120	13%	40,844	12%	23,734	8%
Profit & Loss Account												
Mark-up earned	54,821	90%	51,616	90%	40,044	87%	31,787	84%	25,778	84%	17,756	76%
Mark-up expensed	(17,988)	-29%	(15,837)	-28%	(11,561)	-25%	(7,866)	-21%	(4,525)	-15%	(2,781)	-12%
Net mark-up income	36,834	60%	35,779	62%	28,483	62%	23,921	63%	21,253	69%	14,975	64%
Provisions & write off	(3,685)	-6%	(7,465)	-13%	(4,042)	-9%	(3,061)	-8%	(1,194)	-4%	(1,072)	-5%
Net mark-up income after provisions	33,149	54%	28,314	49%	24,441	53%	20,860	55%	20,059	65%	13,903	59%
Non-mark-up income	6,265	10%	5,643	10%	5,791	13%	6,448	17%	4,991	16%	5,754	24%
Non-mark-up expenses	(13,160)	-22%	(10,801)	-19%	(8,365)	-18%	(6,000)	-16%	(6,549)	-21%	(6,638)	-28%
Profit before tax	26,253	43%	23,155	40%	21,868	48%	21,308	56%	18,501	60%	13,018	55%
Taxation	(9,380)	-15%	(7,660)	-13%	(6,493)	-14%	(6,042)	-16%	(6,358)	-21%	(4,096)	-17%
Profit after taxation	16,873	28%	15,495	27%	15,375	34%	15,266	40%	12,142	39%	8,922	38%

Six Years' Horizontal Analysis – Statement of Financial Position / Profit & Loss

	2010	10 Vs 09	2009 09 Vs 08		2008 08 Vs 07		2007 07 Vs 06		2006 06 Vs 05		2005 05 Vs 04	
	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%	Rs M	%
Statement of Financial Position												
Assets												
Cash and balances with treasury banks	45,407	17%	38,775	-2%	39,631	.1%	39,684	22%	32,466	37%	23,666	-1%
Balances with other banks	1,479	-75%	6,010	49%	4,043	6%	3,808	-42%	6,577	348%	1,466	-74%
Lendings to financial institutions	4,402	47%	3,000	-27%	4,100	290%	1,051	-95%	21,082	111%	9,999	-9%
Investments - net	213,061	27%	167,134	73%	96,632	-15%	113,089	78%	63,486	-9%	69,481	3%
Advances - net	254,552	1%	253,249	-3%	262,135	20%	218,961	10%	198,239	10%	180,323	31%
Operating fixed assets	20,947	16%	18,015	4%	17,264	8%	16,024	77%	9,054	11%	8,182	2%
Deferred tax assets - net	-	-	-	-	-	-	-	-100%	172	-10%	192	100%
Other assets - net	27,705	20%	23,040	16%	19,810	11%	17,869	62%	11,031	102%	5,472	-11%
	567,553	11%	509,224	15%	443,616	8%	410,486	20%	342,108	15%	298,781	15%
Liabilities												
Bills payable	10,266	25%	8,201	-22%	10,551	1%	10,479	48%	7,090	-17%	8,537	13%
Borrowings	25,684	-42%	44,662	97%	22,664	-42%	39,407	65%	23,943	-13%	27,378	261%
Deposits and other accounts	431,372	17%	367,605	11%	330,182	13%	292,098	13%	257,462	12%	229,342	4%
Sub-ordinated loan	-	-	-	-	-	-100%	479	-70%	1,597	-0.04%	1,598	-0.04%
Deferred tax liabilities - net	4,934	54%	3,197	631%	437	-63%	1,180	100%	-	-	-	-100%
Other liabilities	16,092	2%	15,819	-26%	21,346	82%	11,722	5%	11,171	30%	8,192	32%
	488,348	11%	439,484	14%	385,180	8%	355,366	18%	301,264	9%	275,046	12%
Net assets												
	79,204	14%	69,740	19%	58,436	6%	55,120	35%	40,844	75%	23,734	63%
Represented by												
Share capital	7,602	10%	6,911	10%	6,283	0%	6,283	15%	5,463	28%	4,265	27%
Reserves	40,163	5%	38,386	4%	36,769	8%	34,001	38%	24,662	84%	13,834	137%
Unappropriated profit	21,415	36%	15,779	72%	9,193	79%	5,131	-7%	5,531	2526%	211	28%
Surplus on revaluation of assets - net of tax	10,024	16%	8,664	40%	6,191	-36%	9,706	87%	5,188	-4%	5,424	1%
	79,204	14%	69,740	19%	58,436	6%	55,120	35%	40,844	75%	23,734	63%
Profit & Loss Account												
Mark-up / return / interest earned	54,821	6%	51,616	29%	40,044	26%	31,787	23%	25,778	45%	17,756	95%
Mark-up / return / interest expensed	(17,988)	14%	(15,837)	37%	(11,561)	47%	(7,866)	74%	(4,525)	63%	(2,781)	35%
Net mark-up / interest income	36,834	3%	35,779	26%	28,483	19%	23,921	13%	21,253	42%	14,975	113%
Provisions & write off	(3,685)	-51%	(7,465)	85%	(4,042)	32%	(3,061)	156%	(1,194)	11%	(1,072)	150%
Net mark-up / interest income after provisions	33,149	17%	28,314	16%	24,441	17%	20,860	4%	20,059	44%	13,903	111%
Non-mark-up / interest income	6,265	11%	5,643	-3%	5,791	-10%	6,448	29%	4,991	-13%	5,754	21%
Non-mark-up / interest expenses	(13,160)	22%	(10,801)	29%	(8,365)	39%	(6,000)	-8%	(6,549)	-1%	(6,638)	-9%
Profit before taxation	26,253	13%	23,155	6%	21,868	3%	21,308	15%	18,501	42%	13,018	221%
Taxation	(9,380)	22%	(7,660)	18%	(6,493)	7%	(6,042)	-5%	(6,358)	55%	(4,096)	152%
Profit after taxation	16,873	9%	15,495	1%	15,375	1%	15,266	26%	12,142	36%	8,922	267%

Quarterly Results - 2010 & 2009

	2010				2009			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Profit & Loss Account								
Mark-up / return / interest earned	14,580	13,845	13,295	13,101	13,327	12,350	12,847	12,983
Mark-up / return / interest expensed	(4,728)	(4,560)	(4,322)	(4,377)	(4,176)	(3,830)	(3,857)	(3,886)
Net mark-up / interest income	9,852	9,285	8,973	8,724	9,152	8,520	8,990	9,097
Provision & write off	(1,573)	25	(1,048)	(1,002)	(2,308)	(1,120)	(2,150)	(1,743)
Non-mark-up / interest income	1,674	1,600	1,591	1,400	1,719	1,183	1,070	1,675
Non-mark-up / interest expenses	(3,064)	(3,759)	(3,555)	(2,871)	(3,061)	(2,618)	(2,459)	(2,791)
Profit before taxation	6,890	7,151	5,961	6,251	5,502	5,964	5,451	6,238
Taxation	(2,514)	(2,596)	(2,160)	(2,110)	(1,812)	(1,916)	(1,829)	(2,103)
Profit after taxation	4,377	4,554	3,801	4,141	3,690	4,049	3,622	4,135
Statement of Financial Position								
Assets								
Cash and balances with treasury banks	45,407	43,851	44,463	37,963	38,775	39,233	41,420	36,732
Balances with other banks	1,479	2,619	1,506	11,284	6,010	2,918	5,914	2,386
Lendings to financial institutions	4,402	9,865	16,530	5,460	3,000	4,814	6,388	11,288
Investments - net	213,061	207,794	179,515	157,032	167,134	142,937	116,089	125,352
Advances - net	254,552	228,577	245,058	242,215	253,249	238,292	258,850	244,149
Operating fixed assets	20,947	18,298	18,119	18,017	18,015	17,652	17,555	17,532
Other assets - net	27,705	28,481	26,911	25,554	23,040	22,957	21,467	18,992
	567,553	539,485	532,102	497,525	509,224	468,802	467,682	456,430
Liabilities								
Bills payable	10,266	8,844	5,370	6,564	8,201	8,392	6,283	7,440
Borrowings	25,684	14,052	13,379	11,455	44,662	12,793	16,483	30,247
Deposits and other accounts	431,372	422,272	419,270	391,565	367,605	362,116	361,835	338,311
Sub-ordinated loan	-	-	-	-	-	-	-	-
Other liabilities	16,092	15,015	17,103	12,467	3,198	23	469	918
Deferred tax liabilities - net	4,934	3,988	3,705	3,421	15,818	17,882	17,826	17,259
	488,348	464,172	458,827	425,472	439,484	401,206	402,897	394,174
Net assets	79,204	75,313	73,275	72,052	69,740	67,596	64,786	62,256
Represented by:								
Share capital	7,602	7,602	7,602	7,602	6,911	6,911	6,911	6,911
Reserves	40,163	39,730	39,223	38,798	38,386	37,996	37,554	37,165
Unappropriated profit	21,415	19,751	17,928	16,402	15,779	14,179	12,258	10,721
Surplus on revaluation of assets - net of tax	10,024	8,229	8,523	9,250	8,664	8,510	8,063	7,459
	79,204	75,313	73,275	72,052	69,740	67,596	64,786	62,256

Summary of Cash Flows

	2010	2009	2008	2007	2006	2005
Cash flows from operating activities	58,701	78,148	2,032	61,899	3,541	2,445
Cash flows from investing activities	(48,123)	(70,369)	8,234	(51,616)	4,755	(1,814)
Cash flows from financing activities	(8,568)	(6,736)	(10,313)	(5,847)	5,616	(155)
Cash and cash equivalents at beginning of the year	44,785	43,674	43,491	39,043	25,132	29,452
Cash and cash equivalents at end of the year	46,886	44,785	43,674	43,491	39,043	25,132

Market Statistics of MCB Shares

Share Prices	MCB Scrip		MCB GDRs (REG S)*	
	High (Rs.)	Low (Rs.)	High (USD)	Low (USD)

2010

December Quarter	230.15	187.26	5.20	5.20
September Quarter	214.99	180.40	5.20	5.20
June Quarter	221.49	173.04	5.20	5.20
March Quarter	233.80	201.30	5.20	4.73

2009

December Quarter	240.45	198.47	5.45	4.73
September Quarter	244.00	151.75	5.45	5.45
June Quarter	212.50	131.16	5.45	5.45
March Quarter	151.30	75.00	5.45	3.31

* 1 GDR = 2 ordinary shares

Dividends	Rs. (Mlns)	Rs. per share
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2010

Final cash dividend	2,281	3.0
3rd interim dividend	2,281	3.0
2nd interim dividend	2,281	3.0
1st interim dividend	1,901	2.5

2009

Final cash dividend	2,419	3.5
3rd interim dividend	1,728	2.5
2nd interim dividend	1,728	2.5
1st interim dividend	1,728	2.5

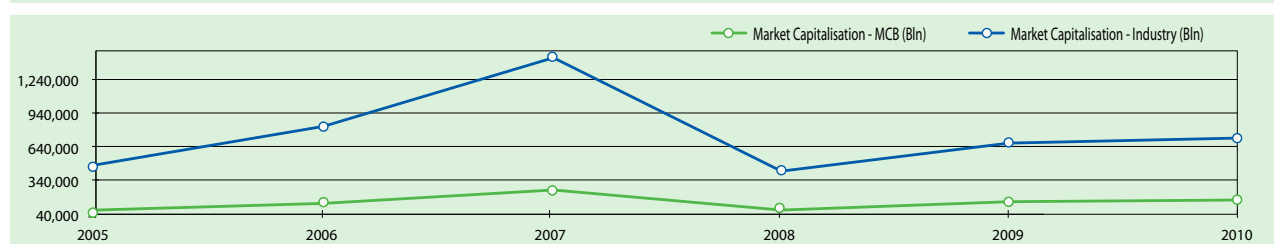
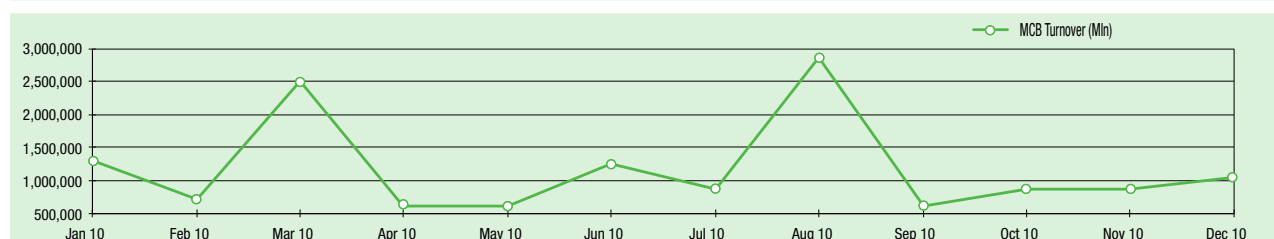
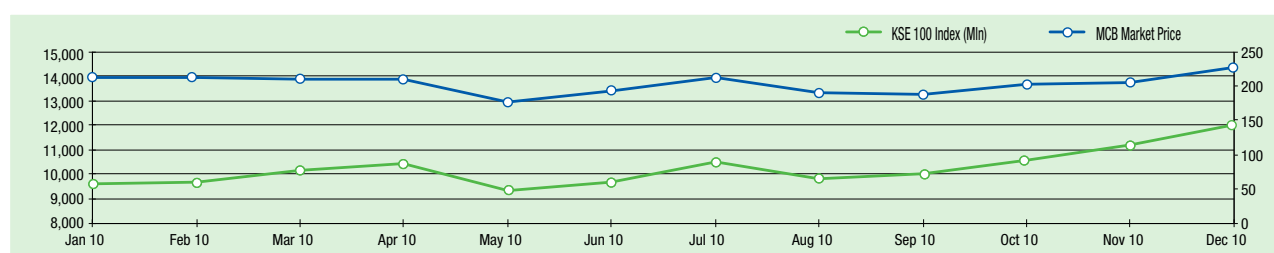
Bonus	Rs. (Mlns)	Per share
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2010

760 10%

2009

691 10%



MCB Calendar

Calendar of Major Events

Incorporation	1947
Nationalisation	1974
Investment in First Women Bank	1989
Privatisation	1991
Incorporation of MCB Financial Services Limited	1992
Incorporation of MNET Services (Private) Limited	2001
Investment in Adamjee Insurance Company Limited	2004
Incorporation of MCB Trade Services Limited	2005
Incorporation of MCB Asset Management Company Limited	2005
Change of name from Muslim Commercial Bank Limited	2005
Issuance and Listing of Global Depository Receipts on London Stock Exchange	2006
Strategic acquisition by Maybank	2008
Incorporation of MCB Leasing Closed Joint Stock Company	2009

Financial Calendar

2010

1st Quarter Results issued on	April 21, 2010
2nd Quarter Results issued on	August 05, 2010
3rd Quarter Results issued on	October 26, 2010
Annual Results issued on	February 10, 2011
63rd Annual General Meeting	Scheduled on March 31, 2011

2009

1st Quarter Results issued on	April 23, 2009
2nd Quarter Results issued on	August 08, 2009
3rd Quarter Results issued on	October 23, 2009
Annual Results issued on	February 25, 2010
62nd Annual General Meeting	March 26, 2010

2008

1st Quarter Results issued on	April 25, 2008
2nd Quarter Results issued on	August 22, 2008
3rd Quarter Results issued on	October 24, 2008
Annual Results issued on	February 16, 2009
61st Annual General Meeting	March 27, 2009

Credit Ratings

	NEW (June 2010)	PREVIOUS
Long Term	AA+	AA+
Short Term	A1+	A1+

Rated by PACRA

Directors' Report to the Members

I am pleased to place before you, on behalf of the Board of Directors, the 63rd annual report of MCB Bank Limited for the year ended December 31, 2010.

Pakistan Economy

During the last three years, Pakistan has recorded an annual average growth of 3% in GDP with the commodity producing sectors achieving an annual average growth of 1.9% only, which was lower than the estimated annual growth in population. Consequently, supply shortages developed, which were accompanied by demand pressures emanating mainly from an expansionary fiscal policy that relied increasingly on borrowing from the State Bank of Pakistan and the banking system to finance mainly unproductive government expenditure. Supply bottlenecks reinforced by demand pressures led to a sharp rise in prices which increased by approximately 15% per year in the last three years.

The recurring borrowing requirements of the government and the pressure on the budget deficit depicted the inability of the policies to meet the core objective of curtailing inflation, and resulted in tiring impact being met through expansionary monetary measures. However, to partly offset the expansionary impact of the fiscal policy, the State Bank resorted to tightening of the credit policy for the private sector and increased its policy rate several times putting upward pressure on lending rate of banks.

With continuous injection of high powered money by government excessive borrowing from the State Bank of Pakistan, the tightening of the monetary policy by increasing



policy rate had only limited effect on the overall expansion of liquidity with the result that price pressures continued to mount. The demand for credit from the loss making public sector corporations and financing of interagency debt by borrowing from commercial banks added to expansion of liquidity in the economy but credit squeeze for the private sector, which was already being adversely affected by load shedding of electricity and gas combined with an increase in their prices reflecting a rise in their world prices and reduction of subsidies under an agreement with the IMF.

Containment of government borrowing from the banking system and improvement of financial health of large public sector corporations is an essential prerequisite for the State Bank of Pakistan to contain monetary expansion within safe limits, reduce price pressures and to ease its policy rate to avoid further chocking off the private sector.

In spite of expansionary stance of the fiscal policy, adverse effects of floods on domestic production, and increasing price pressures the country was able to maintain a healthy level of foreign exchange reserves reflecting a rising trend in exports, a sharp increase in remittances, availability of bilateral assistance and disbursements from international financial organizations, particularly the IMF under a Standby arrangement.

The difficult economic conditions face by the country have had their adverse affect on the asset portfolio of the banking system and nonperforming loans increased under depressed market conditions.

In spite of it, the banking system remained generally insulated from the fall out effects from the world recession and financial crisis, and it was able to maintain a healthy trend in profitability, thanks to privatization of banks and banking reforms introduced in the country since the nineties.

The disturbing trends in the economy can only be reversed by major structural reforms undertaken under a well thought out and effectively implemented strategy to put the fiscal house in order including containment of expenditure, higher revenue and elimination of interagency debt through their sale or reforms and thereby limiting domestic and foreign borrowing for budget financing, measures to contain inflation, increase domestic saving rate, accelerate economic growth and expand access to world markets of high value exports. It is a tall order of policy reforms but a dire need of the country.

Notwithstanding the difficult economic situation of the country, MCB Bank continued to make progress in its operations and achieve sound financial results. In the subsequent sections of the report, a review of operations is followed by a detailed analysis of the financial results of the Bank alongwith narration of on major structural reforms undertaken to strengthen the foundations of the Bank for future growth.

Review of Operations

Corporate Banking Group

The aim of the Corporate Banking Group for 2010 was to buildup trade volumes and ramp up fee income while maintaining a healthy risk asset portfolio in the current economic conditions. The Group successfully executed its strategy and managed to post an increase of 52% in trade volumes and increased cash management & home remittances throughputs by 26% and 76% respectively, which contributed a significant increase of 22% increase in fee income over the same period last year. The increase in trade, collections and home remittances were, in great part, the result of leveraging in-house expertise, strengthening client relationships while continuing to roll out new products and offerings. Loan growth in 2010 remained subdued at 8% given the presence of enhanced levels of systemic and borrower risks. The quality of the Group's loan portfolio continued to compare favorably to the industry as non-performing loans, as a percentage of total loans were around 2% only.

Moving forward, in 2011 the Group will continue to focus on Transaction Banking products as revenue and volume drivers in a challenging environment while maintaining the quality of the Bank's risk assets will, as always, remain a key imperative.

Commercial Banking Group

The group, equipped with wide spectrum of banking products and service for large local corporations, SME / Agriculture sector and retail customers made exceptional progress in 2010. The extensive network of more than 1000 commercial branches across Pakistan was further strengthened by record opening of 51 new commercial branches (including 3 sub branches) in 2010. Commercial Branch Banking group (CBBG) achieved the highest ever deposit growth of 17.75% with emphasis on increase in low cost deposits.

CBBG achieved remarkable growth of 43% in trade volume which was used as a catalyst for generating deposits and advances. Despite an ailing economy, adverse macroeconomic indicators and worst floods of the century, CBBG closed 2010 with the key performance indicators being positive. CBBG branches were first to become operational after the massive devastation caused by the floods. The dedicated efforts of commercial banking team ensured protection of all assets during flood crisis. CBBG team extended support to masses as MCB Bank became exclusive bank for donor agencies and MCB brand was advertised free of cost in electronic & print medium. Commercial banking team took initiative of launching self help flood relief efforts for employees that were affected by the flood and donations of Rs. 2.75 Million were distributed among staff members. In addition to these Maybank staff also made generous contributions for the flood affected victims.

The year witnessed strengthening operations and credit structure to improve internal controls and efficient systems. Special emphasis on providing quality customer services throughout the year led to ATM uptime of 94% - 96% during Eid festivities.

Going forward in 2011, the focus would remain on recoveries along with increase in advances. Continued emphases on deposits growth by offering new liability products to tap new avenues of market segments would be a key strategy. Commercial banking team would be focusing on enhancing revenue growth and profitability through cross selling various financial products, strengthening internal controls operational structure, capacity building, proficient customer services and optimizing branch banking platform.

Consumer Banking Group

In 2010, the group focused on consolidating and broadening its menu of services offered to the Bank's individual customers. The ground breaking MCB Mobile service went from strength to strength and established itself as the leading Bank-led money transfer service in the country. The excellence of the service received international recognition as well – with MCB winning the best Bank-led money transfer service award at the Global MMT awards in Dubai in 2010. Remote Banking will continue to be a game-changer in 2011 with the planned launch of Visa Debit card and through the introduction of low cost, entry level banking products and services.

The footprint of the Privilege Banking offering also grew in 2010, with a new Privilege Center opening up in Multan, which is the first facility of its nature in the city and will strengthen MCBs Bank's penetration into the high net worth segment. Critical fee-based businesses like Bancassurance and Investment Services gained momentum in 2010, and contributed significantly to the bottom line. MCB Bank is now among the top 3 providers of Bancassurance in the country within 3 years of launching the initiative and well-positioned to continue this momentum with the support of tailor made products developed for the Bank's customer base by well reputed Insurance providers.

Given the state of the economy, 2010 also saw us following a conservative strategy in Consumer Financing. The Bank had considerable success in stabilizing the lending portfolios, and was able to contain credit losses as compared to previous years. At the same time, the continued commitment to be an active long-term player in this market was underlined with the launch of the Platinum credit card, which will, combined with our Privilege Banking strategy, enable MCB Bank to make further inroads into the high-net worth segment.

Islamic Banking Group

This has been a year of major achievements for MCB Islamic Banking (MCB IB). Targets were exceeded and growth was

observed in almost all areas of business. MCB IB improved financial structuring and has as a result become self sufficient in generation of liabilities to fund its earning assets. The group has increased its network reach by opening 5 new dedicated branches (including 2 sub branches) in the year 2010 depicting a step forward in its long term business focus. Strategic branch relocations have also led to growth in the business. Deposit generation targets were achieved and exceeded through restructuring of sales model and improvement in dedicated branch network. Focus on trade business has resulted in growth by 113% with respect to the previous year and has prepared grounds for further growth in future. Volumes of new accounts opened grew by 55%, highlighting the effective implementation of our sales strategy. In order to serve a diversified set of customers, MCB IB added a new product of "Shariah Compliant Bank Guarantee" to its product menu in 2010.

Going forward Islamic Banking group intends to establish enhanced network reach by opening new branches. In the following year the Group will follow an aggressive strategy to cater the trade based needs of the Bank's valuable existing and potential customers. This objective shall be achieved by development of new foreign and inland trade based products. Marketing tools to create awareness of MCB Islamic Banking shall be strategically used to position our products more effectively in the market.

Treasury and FX Group

At Treasury, the transformation set in place in 2009 took further traction as was envisaged originally. Treasury completed the shift of its main body from Karachi to Lahore consolidating its trading and marketing desks. It expanded its footprint by opening a Treasury Marketing Unit (TMU) desk in Islamabad. The transformation started manifesting in enhanced volumes originating from central and northern regions while maintaining the growth in the south region's pace. Treasury would continue on its customer-centric business model and would strive to broaden its product menu to cater to customer needs more comprehensively. In this regard, Treasury is undertaking a project to upscale its infra-structure platform which would enable the Bank's to roll-out the risk-management products more vigorously.

Given the sharp economic and political turns the country faced during the year, Treasury dynamically and preemptively positioned its portfolio in anticipation of rapid monetary policy developments. The portfolio was pushed into shorter maturities and the duration was reduced dramatically. SBP increased its Discount Rate in three back-to-back, 50bp each, successive moves from 12.50% at the beginning of the year to 14% by the year-end. The Group will continue to remain risk-averse in its investment strategy till such time as the balance of emphasis in the State Bank's Monetary Policy to shift pro-growth from its current anti-inflation stance. During the year, the Bank showed

a remarkable growth in deposits which manifested in the sizeable growth in Treasury's holding of government securities.

Treasury played a significant role in Trade Finance business of the Bank. MCB Bank became the leading bank in facilitating country's foreign trade by providing foreign currency funding, mainly in US dollars through the Treasury. By the year-end, Bank's Trade Finance portfolio stood at historically high levels.

Human Resource Group

As an organization MCB Bank's faith and conviction in people being its biggest strength, governs its deliverables. The focus of the Human Resources Group throughout the year has been on taking initiatives to create a performance oriented environment where employees work with dedication and in coordination. The Bank will continue to take measures to attract, train and retain the best staff.

Information Technology Group

The Information Technology (IT) Group is following a comprehensive strategy of improving infrastructure including dedicated unit for IT services, upgrading applications, and automating services and operations. Significant achievements of the past year include improvements in core and branch networks, tele-presence, data center upgrade, server and storage consolidation, disaster recovery at remote location, network and ATM monitoring, network time services, dynamic addressing, IT service desk, revamp of legacy applications, data base upgrades, regulatory compliance, comprehensive security assessment and various operational and security improvements in data center, network and end points.

The plan for 2011 includes core banking and internet banking upgrade, master data management, loan origination system, treasury system, enterprise management system, IT infrastructure library, alternative delivery channels' controller upgrade, visa debit card, thin client infrastructure, network access control improvements, IP telephony, and further strengthening of IT operations and security. These improvements will result in a scalable, fault tolerant, and secure IT environment for efficient services, business growth, and customer satisfaction.

Audit and RAR Group

Audit & RAR Group continued to strengthen its structure and processes whilst enhancing its vital support towards improvement in Bank's overall control environment. The focus remained in supporting the management in its endeavor to maximize quality value for all stakeholders. The compliance monitoring mechanism was improved to ensure effective and timely resolution of identified discrepancies. In 2010, the group extended its coverage to all critical areas of the Bank and added value to varied processes operating Bank wide.

Audit & RAR Group will continue with its efforts to increase its effectiveness through continuous professional development of its people, strengthening of applicable framework and introduction of advanced technological and functional solutions.

Operations Group

The Group continued to embark on operational efficiency initiatives and strengthening Bank's processes and controls through process centralization, compliance with the COSO based internal control framework and improvements in policies & procedures including the update of Branch Operations Manual. Strong operational support was provided to the businesses through provision of seamless service and smooth transaction processing. Businesses were also supported through detailed reviews of new product programs, accounting manuals & processes. Prudent transactional controls were achieved through automation initiatives like new Inter-branch reconciliation system (Corona) and Oracle-GL. Improved service results were achieved in Wholesale banking branches through the implementation of Service Management Program. Control in unit costs coupled with improved processing efficiencies was also achieved in centralized operating divisions. Awareness and implementation of Business Continuity Management and Health, Safety & Environment has been notably enhanced. About 80 infrastructural projects including new branches/offices and renovation of buildings were completed across the country. Several new operating divisions such as Global Transaction Banking Operations, M-Net Switch Settlement Operations and Privilege Banking Operations were successfully integrated within the Group.

Special Asset Management Group

Special Asset Management Group (SAMG) continued to play a significant role towards recovery of Bank's defaulted loans. Resultantly, despite challenging environmental adversities, SAMG continued its legacy of recovering Non Performing Loans (NPLs) in excess of Rs. 1.00 Billion for the third consecutive year.

The difficult future economic outlook necessitates continuation of a higher focus on Bank's Special Assets Management Group during 2011.

Risk Management Group

Sound risk management is one of the key pillars of support for a strategy of sustainable profitable growth and therefore a core competency at MCB Bank. The Bank relies upon a strong risk management function for several reasons, to ensure that it maintains consistently high standards of risk management, to raise executive management's awareness and understanding of the risks being taken, to encourage optimization of the risk/return. MCB Bank executes its risk strategy and undertakes controlled risk-taking activities within its risk management

framework. The Bank continuously reviews and upgrades its risk management framework in order to align its long-term strategy in the field with lessons learned through its own and general best practices. It has successfully created a culture based on modern techniques that allows risk management and business units to create more shareholder value through a better understanding of the Bank and its customers.

MCB Bank ensures formulation and implementation of a comprehensive Risk Management Framework. This framework combines core policies, procedures and process design with oversight and is supported by risk monitoring across the Bank.

The Risk Management Framework is also kept compliant with the local regulations and international best practices, particularly those relating to implementation of Basel-II. The Risk Management Group controls the review and administration of lending solutions offered to the Bank's clients through a dedicated team of experienced professionals. It also manages the three main areas of risk that are inherent to all activities of the Bank namely credit risk, market risk and operational risk.

Credit Review and Credit Risk Control ensure that Bank's lending decisions are in line with the Bank's strategy, lending is done prudently, and that recoveries are actively monitored. Credit Risk Management identifies our target markets through economic research and data analysis. It defines how the Bank lends to its customers through detailed policies and procedural product manuals. It coordinates with business units to ensure that targeted lending activity is in line with the Bank's overall strategy and appetite.

Market Risk is the risk to the Bank's earnings arising from the change in interest rates, currency exchange rates, credit spreads and equity prices. Market Risk Management ensures that the Bank's exposures in financial markets are actively managed within reasonable limits after taking into the account the above mentioned risks.

Operational Risk Management helps the Bank understand risks and improve our mitigating controls so as to minimize operational risks that are inherent in almost all areas of the Bank.

Basel II Projects monitors the implementation of various projects in the areas of credit, market and operational risk that have been initiated to allow the Bank to adhere to, and adopt, the internationally accepted best practices of Basel II.

In addition to the internal Compliance unit within the Risk Management Group, the Risk Management & Portfolio Review Committee provides oversight and direction to the activities of the Group.

These elements of risk management within MCB Bank collectively ensure that the Bank's risk profile is actively

monitored and adjusted according to the Bank's strategy and the operating environment in a manner which ensures protection to the depositor and value to the shareholder.

Liquidity Risk and Management

Liquidity represents the ability to fund assets and meet obligations as they become due. Liquidity risk is a risk of not being able to obtain funds at a reasonable price within a reasonable time period to meet obligations as they become due. Because liquidity is critical to the ongoing viability of any financial institution, liquidity management is among the most important activities that the Bank conducts. MCB Bank recognizes that liquidity risk can arise from the Bank's activities and can be grouped into three categories:

- Inflows/Outflows from on-balance sheet items (other than marketable securities and wholesale borrowings) and off-balance sheet items;
- Marketability of trading securities; and
- Capacity to borrow from the wholesale markets for funding as well as trading activities.

MCB Bank monitors and assesses the impact of increase in NPLs, deposits concentration, deposits withdrawal, decline in earnings, expanded business opportunities, acquisitions and negative reputation, on its liquidity positions.

Liquidity Management

MCB Bank's liquidity risk management framework is designed to identify measure and manage in a timely manner the liquidity risk position of the Bank. The underlying policies and procedures include: Risk Management policy, Treasury and Investment policy, Contingency Funding Plan and Limit Structure which are reviewed and approved regularly by the senior management /Board members. The Bank's liquidity risk policy envisages to project the Bank's funding position during temporary and long-term liquidity changes, including those caused by liability erosion and explicitly identifying quantifying and ranking all sources of funding preferences, such as reducing assets, modifying or increasing liability structure; and using other alternatives for controlling statement of financial position changes. MCB Bank's liquidity risk management approach involves intraday liquidity management, managing funding sources and evaluation of structural imbalances in statement of financial position structure.

Intraday Liquidity Management

Intraday liquidity management is about managing the daily payments and cash flows. Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment system. The policy of the Bank is to

maintain adequate liquidity at all times, in all geographical locations and for all currencies and hence to be in a position, in the normal course of business, to meet obligations, repay depositors and fulfill commitments.

Managing Funding Sources

Managing funding sources, as per policy MCB Bank maintains a portfolio of marketable securities that can either be sold outright or sold through a repurchase agreement to generate cash flows for meeting unexpected liquidity requirement. As a part of liquidity management The Bank maintains borrowing relationships to ensure the continued access to diverse market of funding sources. MCB Bank's sound credit rating together with excellent market reputation has enabled MCB to secure ample call lines with local and foreign banks. The level of liquidity reserves as per regulatory requirements also mitigates risks. MCB Bank's investment in marketable securities is much higher than the Statutory Liquidity requirements.

Financial Review

The Bank ended the year 2010 with widened asset base, improved equity and profitability, stronger capital base and sustained returns. Presented below is the financial analysis of MCB Bank Limited for the period ended December 31, 2010.

Profit and Recommended Appropriations

The profit before and after taxation for the year ended December 31, 2010 together with appropriations is as under:

	(Rs. in Million)
Profit before taxation	26,253
Taxation	(9,380)
Profit after taxation	16,873
Un-appropriated Profit Brought Forward	15,779
Transfer from Surplus on Revaluation of Fixed Assets (net of tax)	22
	15,801
Profit Available for Appropriation	32,674
Appropriations	
Statutory Reserve	1,687
Final Cash Dividend – December 2009	2,419
Issue of Bonus Shares – December 2009	691
Interim Dividend – March 2010	1,900
Interim Dividend – June 2010	2,281
Interim Dividend – September 2010	2,281
Total Appropriations	11,259
Un-appropriated Profit Carried Forward	21,415

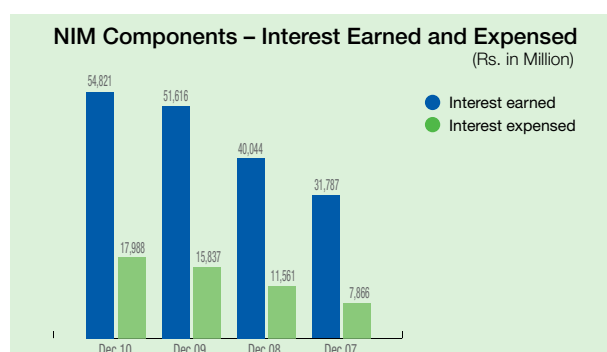
Dividend

The Board has recommended a final cash dividend @ 30% and bonus shares @ 10% for the year ended December 31, 2010. This is in addition to 85% interim cash dividends announced during the year. The effect of the recommendation is not reflected in the above appropriations.

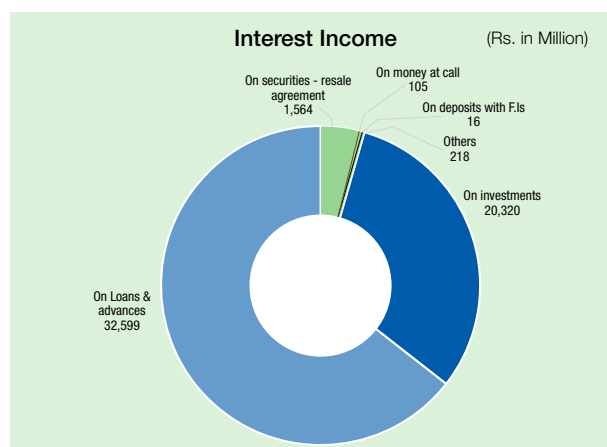
Profitability

MCB delivered a profit of Rs. 26.253B for the year ended December 31, 2010, registering a strong growth of 13% over Rs. 23.155B reported for the year 2009. Profit after tax of the Bank touched Rs. 16.873B, which is higher by 9% over the previous year 2009.

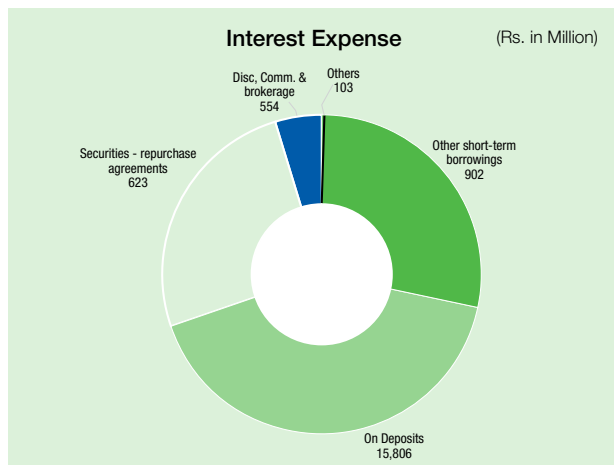
The interest rates upward revision coupled with the other monetary pressures lead to a rise in the cost of credit. Given the prudent stakes in appropriate mix of investments, the Bank was able to maintain interest income, which registered a positive growth of 3% over 2009.



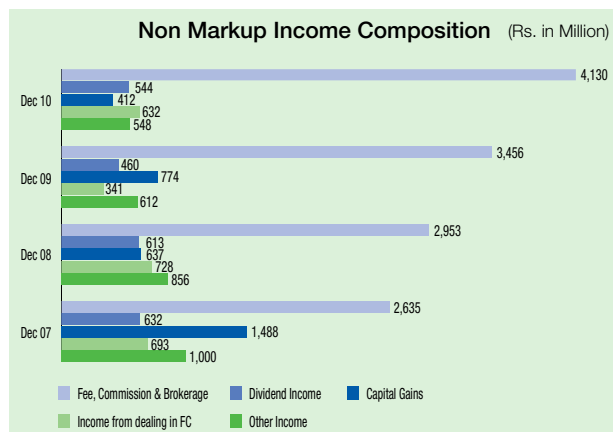
Major component of increase in profits remained interest income, representing 90% of the total gross income, which rose by 6% from last year to Rs. 55B. The robust upward flux in investments helped the strong increase in total interest earned throughout the year. Return on investments was reported at Rs. 20B, growth of 46% over 2009, with major portion earned on Treasury Bills of Rs. 18.4B in 2010.



Interest expense increased by 14% and was reported at Rs. 18B. Cost of deposits rose to Rs. 16B, with a sharp rise of 14% from 2009. Cost on short term borrowings, at Rs. 902M increased by 16% from 2009.



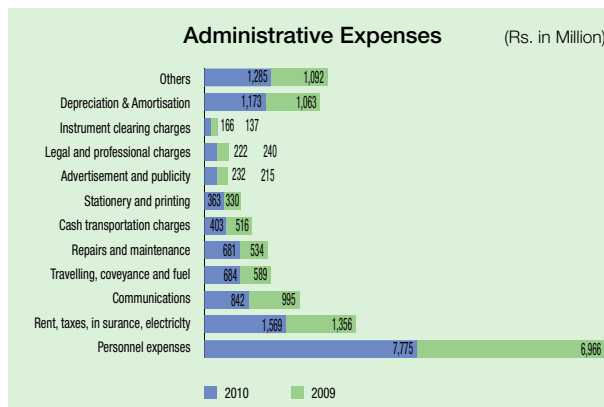
The focus of the Bank has grown into venues of income covering value added services along with core banking business. As a result, non interest income has been on the rising trend posting an increase of 11% on a yearly basis in 2010 to Rs. 6B.



Fee, commission and brokerage continued to be the major portion of the total non fund based income, with an increase of 19% over 2009 with major contributions from commission earned on banc assurance, remittances and trade business.

With reference to the operating expenditure block, the cost cutting methodologies adopted by the management have kept the increase under control despite the soaring inflation rates applicable throughout the financial year, 2010. Effective planning and budgeting policies implemented across bank have greatly pacified the growth rate in administrative expenses, restricting the same to 9.7% over 2009 (excluding the impact of PF reversal).

The administrative expenses rose to Rs. 15B from Rs. 14B in 2009. Increase in insurance, electricity, transportation, legal and professional fee and rent, repair and maintenance charges have mainly contributed to the said increase.

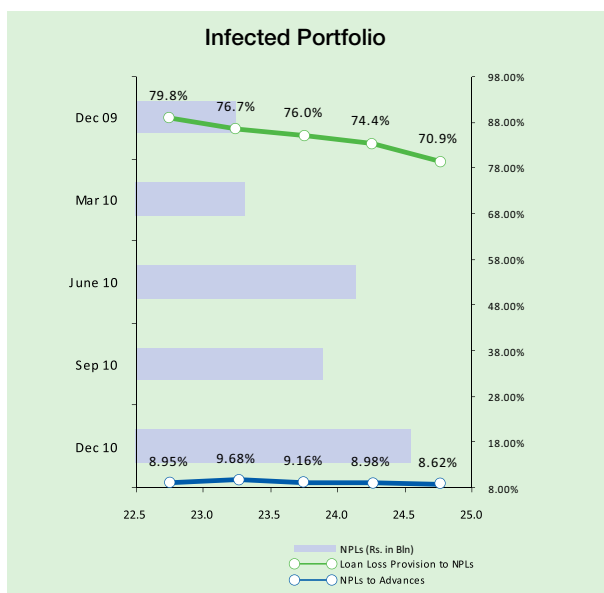


Statement of Financial Position

The strength of the Bank is its strong and competitive asset footing and equity base, both of which registered applauding increase of 11% and 13% over 2009. The total assets of the Bank touched Rs. 568B as of December 31, 2010, whereas the shareholder's equity now stand at Rs. 69B. With the total liabilities rising by 11%, mainly owing to significant increase in deposits, the Net Assets of the Bank stood at Rs. 79B with an increase of 14% from the figure of Rs. 70B in 2009.

Advances

Given the current weak economic conditions, worsened by the catastrophic floods, the advances of the Bank witnessed decrease in the earlier quarters of 2010; however, the off take of advances in the last quarter of 2010 resulted in the year end number to be reported at Rs. 274B, 2% higher than the



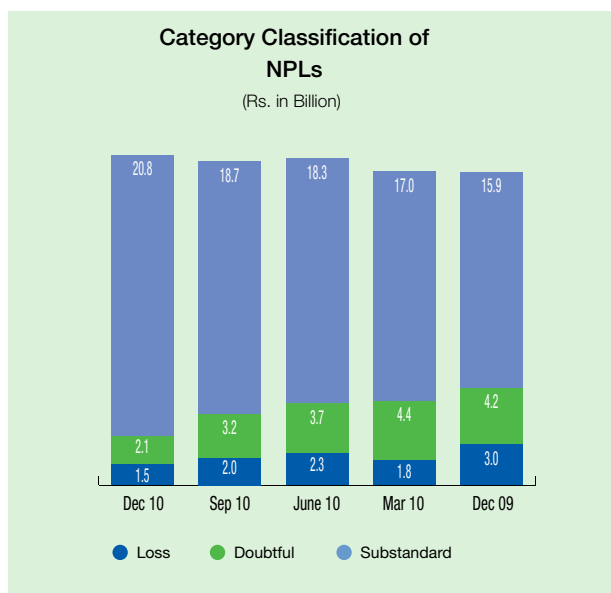


advances reported as at December 31, 2009. Key contributing segments to this growth are Corporate and Commercial which added a combined increase of Rs. 9.2B in the current year with respective increase of 3% and 9% over 2009.

With reference to the industry specific concentration, increase was observed in transport, storage and communication sector, followed by textile and retail sectors. The Bank's exposure in the power and pharmaceuticals sectors decreased by 4% and 15% respectively, over 2009.

Lending to the private sector also saw an increase of 3% in 2010, as opposed to the 11% annual decrease registered in 2009. Simultaneously, public sector advance decreased by 1% from 2009 as opposed to a major increase of 32% last year.

The year 2010 saw a continuous rising trend in the industry non-performing loans (NPLs) in the domestic banking sector. The mid-year floods further devastated the situation as the exposure to agriculture and SME brought a sharp hit to the lenders. MCB Bank Limited on the other hand, managed to coop well with the situation and registered a growth of 6% over 2009.

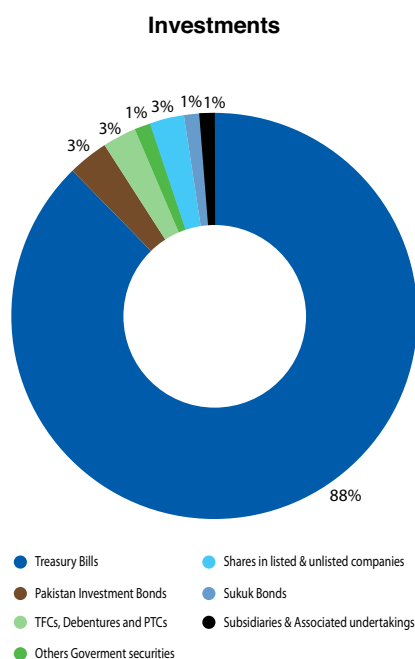


Given the controlled increase in NPLs, the Bank followed an aggressive approach in highlighting borrowers with weak / deteriorating basic financial fundamentals and taking subjective classification charge on such exposures.

The NPL concentration of 85% in the loss category specifies the adequacy of the specific provision held by the Bank as provision coverage ratio of the Bank increased from 70.9% as at December 31, 2009 to 79.8% as at December 31, 2010. Apart from specific provision and general provision against consumer portfolio, as required by prudential regulations, the Bank is carrying an unencumbered general provision of Rs. 274M as at December 31, 2010.

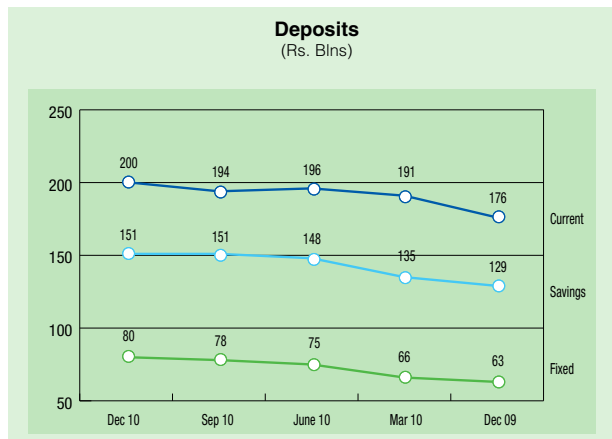
Investments

The investments representing 38% of the total asset base (2009: 33%), increased by 27% from December 2009. Approximately 91% of the gross investment is concentrated in risk free government securities with T-Bills increasing by 32% or Rs. 46B over 2009.



Deposits

On the liability side, the deposit base of the bank witnessed consistent growth throughout the financial year 2010 and was reported at Rs. 431B as at December 31, 2010. This consistent



increase translates into an annual percentage increase of 17% over 2009 with current deposits increasing by 17%, savings deposits by 14% and fixed deposits registering a growth of 28% over December 31, 2009. The CASA base of the Bank constituted 81% of the total deposit base and the prime reason for a lower cost of deposit.

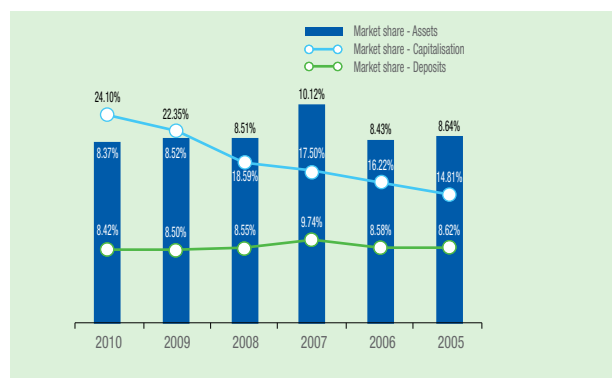
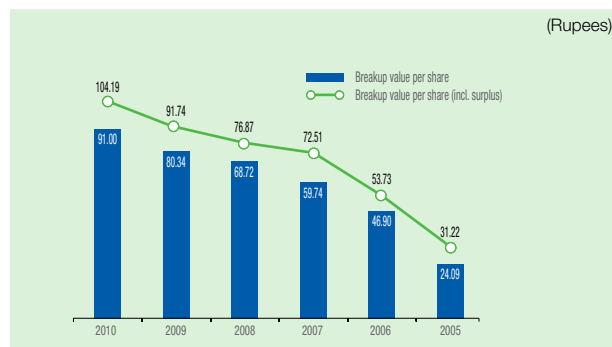
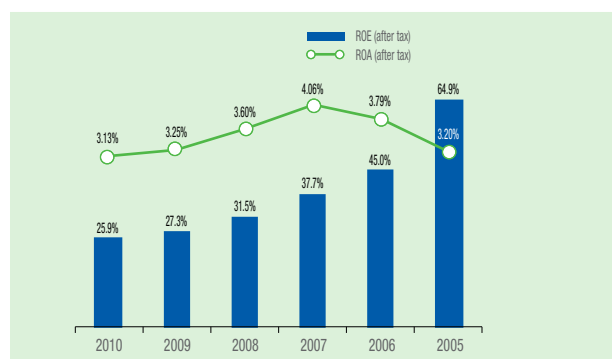
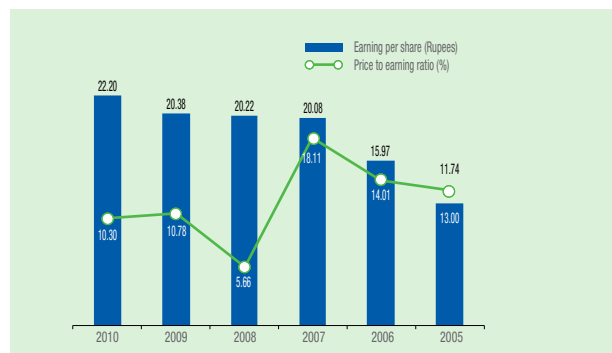
Market Share and Performance

The consistent growth in profitability of the Bank indicated through interim results enabled the Bank to capture a considerable share in the market. The local equity markets depicted relative stability during 2010, resulting in a highest market capitalization over the last two years.

The equity share of the Bank traded at approximately 2.5X book value throughout the year and closed at Rs. 228.5 at December 31, 2010, 4% higher than the closing share price of Rs. 219.7 recorded last year. As a result, the market capitalization of the Bank was reported at Rs. 174B, being the second highest in the last six years (2007: Rs. 251B).

As a result of significant growth in profit numbers, the earning per share (EPS) of the Bank was reported at Rs. 22.20 for the year end 2010 as compared to Rs. 20.38 in 2009. This combined with the improved share price led to a P/E (Price to Earnings) ratio of 10.30.

The book value of the Bank was reported at Rs. 91 increasing from Rs. 80.3 as at December 31, 2009. The return on equity of the Bank was reported at 25.9% (2009: 27.3%), with ROA reported at 3.13% (2009: 3.25%).



Conclusion

Concluding the analyses presented before you, it gives us great pleasure to state that the Bank has coped well with the challenges faced in the year 2010 financially, and met stakeholders' expectations while ensuring positive returns to the shareholders on their investment in the Bank, both in terms of wealth and trust.

Future Outlook

The effectiveness of the economic reforms will continue to be the main concern in 2011 as the country is highly volatile with respect to the systematic risks. The pace of the growth of loan infection is likely to reduce in the coming quarters. The maintenance of the discount rates is the key factor to curtail the inflationary pressure on the cost of credit. Infrastructural developments, control on war on terror, power shortage mitigation, encouraging the private sector, trim in the political instability and the sustainability of the tax reforms in order to meet the international debt are the likely factors of focus in the upcoming year. We are hopeful, given the increasing foreign reserves and reviving investor confidence, the economic conditions will be comfortably better than 2010.

From the Bank's perspective the focus will be provision of value added services via operational expansion and technological improvements. Effectiveness of the Bank's risk management systems, capitalisation on low cost liability franchise, disciplined expense growth, expansion of our capital base and strengthened compliance culture are primary factors in depicting continued strong financial soundness. Effective leadership with a clear vision is the key element of long term sustainability leading to highest levels of employee satisfaction and our aim is to build cohesive teams and strong ethical standards. We will strive to enhance our domestic as well as global image to take the Bank from strong to stronger.

Corporate Awards and Recognition

During the year, the Annual Report of the Bank for the year 2009 won:

- "The Best Annual Report 2009" in the banking sector category, instituted jointly by The Institute of Chartered Accountants of Pakistan and The Institute of Cost and Management Accountants of Pakistan.
- "Certificate of Merit Award" in the Banking Sector subject to Prudential Supervision category, by the South Asia Federation of Accountants (SAFA), an APEC body of the SAARC region.
- MCB is also listed as one of the top 25 listed companies acknowledged by the Karachi Stock Exchange.

Change of Chief Executive Officer

The Bank is privileged to have Mr. M.U.A. Usmani as the new Chief Executive Officer and President of MCB Bank Limited, who replaced Mr. Atif Bajwa in 2010.

Contribution towards the national exchequer and the economy of the country

MCB Bank Limited is one of the main contributors to the national exchequer. The Bank paid Rs. 11,692.657M as income tax to Government treasury during 2010. Furthermore, the Bank contributed over Rs. 6 Billion to the national exchequer as withholding tax agent under different provisions of Income Tax Ordinance, 2001.

The Bank's contribution to the national economy by way of value addition was Rs. 32.5B out of which Rs. 7.8B and Rs. 9.5B were distributed to employees and shareholders respectively.

Credit Rating

The Pakistan Credit Rating Agency (PACRA) maintained the long term credit rating of AA+ [double A plus] and short term credit rating of A1+ [A one plus] of the Bank, through its notification in June 2010 (2009: Long term: AA+ [double A plus] and Short term: A1+ [A one plus]).

Pattern of Shareholding

The pattern of shareholding as at December 31, 2010 is annexed with the report.

Six Year's Operating and Financial Data

The requisite information is presented in the stakeholder's section of this report.

Internal Control and Financial Reporting Framework

The Bank's internal control structure comprises of the Board of Directors, Senior Management, Risk Management Group, Compliance & Control Group, Financial Control Group, Self Assessment Process within business groups and Internal Audit. The Management is responsible for establishing and maintaining a system of adequate internal controls and procedures for implementing strategy and policies as approved by the Board of Directors, designed to provide reasonable assurance as to the integrity and reliability of those controls and reports produced there from; developing processes that identify, measure, monitor and control risks incurred by the Bank; maintaining an organizational structure that clearly assigns responsibilities, authority and reporting relationships; ensuring that delegated responsibilities are effectively carried out; setting appropriate internal control policies; monitoring the adequacy and effectiveness of the internal control system through evaluation and validation by internal auditors who have been entrusted the supervisory function with respect to review of internal controls, the internal auditors reporting significant

findings directly to Audit Committee of the Board; and taking timely due cognizance of the observations / recommendations concerning the system of internal controls made by the internal auditors, external auditors and the regulators. In view of the above and based on its supervision the Management has evaluated the effectiveness of the Bank's internal controls that encompassed material matters and reports that the System of Internal Control is sound in design and has been effectively implemented and monitored for material aspects.

Keeping in view the risk exposure and identification, evaluation and management of significant risks faced by the Bank and based on regular review of internal controls and reports on their soundness, improvements are brought about by the Management with the approval of Board of Directors in the internal controls and policies. These are being continually reviewed and updated not only to conform to and achieve full compliance with State Bank of Pakistan's Guidelines on Internal Controls, but also to conform, wherever feasible and practicable, with international best practices and good corporate governance models. However, it needs to be stated that systems are designed to manage, rather than eliminate the risk of failure to achieve the business objectives and can only provide reasonable and not absolute assurance against material mis-statement or loss. In making this assessment, the Bank used criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework. The Bank's assessment included documenting, evaluating and testing of the design and operating effectiveness of its Internal controls over Financial Reporting (ICFR). The Bank's Internal Controls over Financial Reporting include those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with approved accounting standards, and that receipts and expenditures of the Bank are being made only in accordance with authorizations of Management and Directors of the Bank; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on the financial statements. Because of its inherent limitations, Internal Controls over Financial Reporting may not prevent or detect mis-statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A separate Issues, Tracking and Monitoring (ITAM) Committee was formed in 2007 with all the Group Heads as part of it. Periodic ITAM meetings are being held with the goal to strengthen internal control processes and proactively identify and resolve identified issues.

The Board of Directors has responsibility for ensuring that Management maintains an effective System of Internal Controls and for reviewing its effectiveness. The Bank has a System of Internal Controls which provides reasonable assurance in all material respects of efficient and effective operation of controls. Processes are in place for identifying, evaluating and managing the significant risks facing the Bank in accordance with the Risk Management Policy and Internal Control System and Audit Policy, as approved by the Board. The Board regularly reviews these processes through relevant Board Committees.

In line with improvement in other areas, particular emphasis has been laid on strengthening internal controls and revamping internal audit functions. The staff and professional strength of Internal Audit Group has been improved, its audit activities expanded and its autonomy enhanced. Audit Group has been revamped in terms of quality of staff and audit methodology. With the application of risk centric audit methodology through professional staff, the Audit Department will pave its way for the much desired strategic stature in the organization. The Audit Group is geared to meet the challenge of carrying out its role in Basel II implementation. It is further committed to continuous improvement through quality assurance, strengthen its IT Audit Capabilities and leverage technology for optimizing audit operations. The Audit Group now functionally reports to the Audit Committee.

The Board of Directors continued to focus on improving further the governance structure of the Bank, strengthen policy framework, clearly demarcate the role and responsibilities of the Board, management and the staff and ensure adherence to the regulatory framework of the State Bank of Pakistan. Board Committees were engaged in further developing the management information systems for a better oversight and in particular the Audit Committee took steps to strengthen the role of Internal Audit, increase coordination between Internal and External Auditors and enhance compliance culture in the Bank. Particular focus was laid on the findings of the State Bank of Pakistan in its Inspection Report and on follow up action to ensure prompt and effective compliance. Joint senior staff- Board meeting was held to increase understanding and coordination between the senior management and the Board, enhance cohesiveness in the functioning of the Bank and effectiveness in adherence to the rules and regulations of the State Bank of Pakistan and policy framework of the MCB Bank.

The Directors are pleased to give following statement in respect of Code of Corporate Governance:

- The financial statements, together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984. These statements present fairly the Company's state of affairs, result of its operations, cash flow and change in equity
- Proper books of accounts of the Company have been maintained
- Appropriate accounting policies have been consistently applied
- The International Financial Reporting Standards, as applicable in Pakistan have been followed in preparation of financial statements and any departure having material impact there from has been adequately disclosed
- The system of internal control is sound in design and has been effectively implemented and monitored
- There is no doubt upon the company's ability to continue as a going concern
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations
- Key operating and financial data are made available in the Annual Report
- All the statutory liabilities, if any, have been adequately disclosed in the financial statements

- The Board met on 5 occasions and its meetings were attended by directors as under:

Name	Meetings attended
Mian Mohammad Mansha	5
S. M. Muneer	4
Tariq Rafi*	2
Shahzad Saleem	5
Sarmad Amin	5
Dr. Muhammad Yaqub	5
Mian Raza Mansha	4
Mian Umer Mansha	5
Dato' Mohammed Hussein	4
Aftab Ahmad Khan	5
Muhammad Ali Zeb	4
Dato' Seri Ismail Shahudin **	-
M.U.A. Usmani ***	2

* Mr. Tariq Rafi was unable to attend the first 2 Board Meetings of February 25 & 27, 2010 due to his Foreign visit with Pakistan Delegation and last meeting of October 2010 due to death of his close relative.

** Mr. Abdul Farid Bin Alias attended 3 out of 5 Board Meetings till his resignation in October 2010. To fill the casual vacancy, Dato' Seri Ismail Shahudin, Nominee Director of Maybank, was co-opted by the Board in its October 2010 Meeting, subject to SBP approval

*** Mr. Atif Bajwa, ex-president attended 3 meetings till the completion of his tenure in June 2010. Mr. MUA Usmani, the new CEO, attended the remaining two meetings held in 2010.

Pattern of Shareholding

The aggregate shares held by directors, their spouse and minor children along with other executives of the Bank as at December 31, 2010, are as follows;

Directors	Self	Spouse & Minor Children	Total
Mian Mohammad Mansha	5,352	4,387,719	4,393,071
S. M. Muneer	1,408	-	1,408
Tariq Rafi	2,989,161	80,383	3,069,544
Shahzad Saleem	618	-	618
Sarmad Amin	1,949	-	1,949
Dr. Muhammad Yaqub	695	-	695
Mian Raza Mansha	8,648,106	19,439,497	28,087,603
Mian Umer Mansha	21,847,128	-	21,847,128
Dato' Mohammed Hussein	6,105	-	6,105
Aftab Ahmad Khan	627	-	627
Muhammad Ali Zeb	1,210	-	1,210
Dato' Seri Ismail Shahudin *	-	-	-
M. U. A. Usmani	2,453	-	2,453
Other Executives	102,613	-	102,613

All the trade in shares carried out by Directors, CEO, CFO, Secretary, their Spouse and minor children is reported as under:

	Transfer
Company Secretary	50

Value of investment including accrued income of provident and pension fund as at June 30, 2010 on the basis of audited accounts is:

Provident Fund Pak Staff	Rs. 12,955.047 million
Pension Fund Pak Staff	Rs. 15,533.538 million

Auditors

The Auditors, M/S KMPG Taseer Hadi Chartered Accountants & Co. have completed their term of five years and are not eligible for reappointment as per the regulations. Therefore, upon recommendation of the Audit Committee, the Board recommends appointment of M/s A.F. Ferguson & Co., Chartered Accountants, as the statutory auditors of the Bank for the financial year 2011.

Acknowledgments

In the end, we would like to applaud the State Bank of Pakistan, the Security and Exchange Commission of Pakistan and Ministry of Finance for their effort to strengthen the banking and financial system of the country and to improve regulatory, policy and governance framework for them. We also wish to extend

our sincere thanks to all our employees for their significant contributions to the continued growth and success of MCB Bank Limited. Lastly, we are most grateful to all our clients and shareholders for their continued trust in our ability to provide best possible services.

The Board of Directors, Management and the staff of the Bank remain committed to continuously strive to take new initiatives, introduce new products, improve service quality and work efficiency, and strengthen the institutional and control framework to enable MCB Bank to continue to remain a leading and well governed Bank of the country.

On behalf of Directors



Mian Mohammad Mansha
Chairman

February 10, 2011

Corporate Social Responsibility

Aiming at growth opportunities, MCB Bank strives to be a socially responsible entity in all aspects of its operations. Our prime priority is observing the principles of good governance, contributing to the economy at large and taking care of the social well being of our employees & the community. In 2010 the Bank continued to engage with all its stakeholders demonstrating the priority placed on corporate responsibility.

MCB Bank advocates a culture of excellence, good governance, transparency, integrity and accountability. Controls and Compliance is an integral internal function. MCB Bank ensures that all activities are carried out in accordance with prevailing regulations so that the interests of all our stakeholders are protected. Code of Ethics and Conduct signed by all employees acts as a guide for them in discharging their duties and sets out the standards of good practice.

Being a responsible corporate entity, MCB Bank continues to support national development in the area of public interest. Its branch operations are located in urban and rural areas across Pakistan including remote locations.

In line with our goal to facilitate consumers in making their banking experience more convenient, significant investments have been made to develop alternate distribution channels. We are the first bank in Pakistan to offer a comprehensive mobile banking solution allowing customers to perform a host of basic banking transactions around the clock at their convenience. In addition, we also serve our customers with 1132 branches and 493 ATMs installed nationwide. Our 24/7 call center and Virtual Banking enable the customers to access their account whenever and wherever they choose.

MCB Bank lends continuous support to several NGO's, humanitarian causes and other public interest fund raising campaigns through its channels.

During 2010, MCB Bank made a sizeable donation to various relief funds, established by the Government and the Armed Forces. Beside above, the Board also approved PKR 65 million for the construction of 226 houses in two villages (Basti Darkhanwala and Verar Sipra, Distt. Muzaffargarh) for the flood affected residents of the area.

MCB Bank continues to support aspects of social development with particular focus on sports, culture, education and health. In 2010, besides above, the bank sponsors various government and national level initiatives covering issues on human rights, women, minorities and events like Swat Aman Mela. Sports also cover unconventional sports like Rugby and Baseball.

With more than 4 million customers, we must act as a responsible corporate financial institution. This means ensuring that we do the business in a socially and ethically responsible way, while working with our partners to ensure they adopt a similar set of principles. We believe that banks have an important role to play within the communities they serve – even more so during the challenging economic times as the ones the country faced in 2010.

Employee Engagement

MCB Bank recognizes the importance of its human capital and invests in their growth and development.

We as an Employer

MCB Bank is an equal opportunity employer, identifying and nurturing talent beyond the limitation of sections of society and discrimination on grounds of race, religion or belief, ethnic or national origin, disability, age, citizenship, marital and civil status. We house group of committed and dedicated individuals who jointly, with their hard work, honesty, innovation and teamwork contribute to our success with a belief that every employee is unique and possesses distinctive talents that we nurture through not only the development opportunities but by providing them a conducive & healthy work environment catering to the growing satisfaction and motivational needs of our employees.

Performance Based Pay Culture

MCB Bank thrive on our pay for performance culture. Recognizing and rewarding performance at all levels through a KPI based performance evaluation system, our source for disseminating, aligning and measuring deliverables from the leadership team to the front line managers, ensuring all employees contribute to the overall strategic objectives of the bank. Our continuous efforts & investment to groom our people enhancing their personal and professional skills and competencies are also the manifestation of performance driven work culture. Our compensation philosophy is based on our core belief of rewarding performance on merit, driving a high performance culture within the appropriate risk and governance frameworks.

Training and Education

MCB Bank is committed to invest in its employee's development at all levels, by offering them comprehensive suites of technical, personal & professional, training and development programs.

Through our newly revamped staff colleges in Karachi, Lahore and Islamabad, we imparted 36,267 day of in-house training to our employees, in addition to the 756 days spent on ex-house and 128 days on overseas training throughout 2010, investing a total of PKR 57 million.

MCB Bank believe our training initiatives to be our core investment in our success factor, which is our people and will remain to be our prime focus in the coming years.

Relief Scheme for the Employees

MCB Bank are committed to putting our employees first, our human capital that is our competitive edge. The bank stood by its commitment in the recent events of severe flooding across the country and facilitated the affected employees.

Statement of Ethics and Business Practices

In line with “Statement of Ethics and Business Practices” prepared in 2002, the Employees of the bank shall;

ABIDANCE OF LAWS / RULES

- Conform to and abide by the Bank rules and policies and obey all lawful orders and directives which may from time to time be given by any person or persons under whose jurisdiction, superintendence or control, the persona will, for the time being, be placed. To undertake at all times compliance with and observation of all applicable laws, regulations and Bank’s policies, wherever the bank operates.

INTEGRITY

- Conduct the highest standards of ethics, professional integrity and dignity in all dealings with the public, customers, investors, employees, and government officials, State Bank of Pakistan and fellow bankers and non-engagement in acts discreditable to the Bank, profession and nation.
- In case of awareness of any breaches of laws and regulations, frauds and other criminal activities or other similar serious incidents that might affect the interests of the Bank, the same shall be informed to the senior management immediately, including any issue, which may pose a reputational risk.
- Not use this policy to raise grievances or act in bad faith against colleagues.

PROFESSIONALISM

- Serve the Bank honestly and faithfully and strictly serve the Bank’s affairs and the affairs of its constituents.
- Use utmost endeavour to promote the interest and goodwill of the Bank and show courtesy and attention in all transactions/correspondence with officers of Government, State Bank of Pakistan, other Banks & Financial Institutions, other establishments dealing with the Bank, the Bank’s constituents and the public.
- Disclose and assign to MCB all interest in any invention, improvement, discovery or work of authorship that may be made or conceived and which may arise out of the employment with MCB.
- In case the employment is terminated, all rights to property and information generated or obtained as part of employment relationship will remain the exclusive property of MCB.
- Comply with the laws and regulations on money laundering and fraud prevention and immediate reporting of all suspicions of money laundering as per the guidelines

provided in KYC & AML Procedures Handbook for Management and Staff.

- Not to engage in any act of violation of KYC & AML guidelines given by State Bank of Pakistan and exercising of extreme vigilance in protecting MCB from being misused by anyone to launder money by violating these guidelines.
- Ensure that all customer complaints are resolved quickly, fairly and recorded appropriately.

CONFLICT OF INTEREST

- Avoid all such circumstances in which there is personal interest conflict, or may appear to be in conflict, with the interest of the Bank or its customers.
- In case of potential conflict of interest, the same should be declared immediately to senior management, action is taken to resolve and manage it in open manner and resolving the conflict of interest on their own would be avoided.
- Report to the Company Secretary about any sale and purchase of MCB shares (own or spouse) in case the annual basic salary exceeds Rs. 500,000/-.

Political Participation

- Stand firmly against supporting the activities of any Group or individual that unlawfully threatens public order and safety.
- Not obtain membership of any political party, or take part in, subscribing in aid of, or assist in any way, any political movement in or outside of Pakistan or relating to the affairs of Pakistan.
- Not express views detrimental to the ideology, sovereignty or integrity of Pakistan.
- Not canvass or otherwise interfere or use influence in connection with or take part in any election as a candidate to a legislative/local body or issue an address to the electorate or in any manner announce or allowed to be announced publicly as a candidate or prospective candidate whether in Pakistan or elsewhere. However, the right to vote can be exercised.
- Not bring or attempt to bring political or other pressure/ influence directly or indirectly to bear on the authorities/ superior officers or indulge in derogatory pamphleteering, contribute, or write letters to the newspapers, anonymously or in own name with an intent to induce the authority/ superior officers to act in a manner inconsistent with rules, in respect of any matter relating to appointment, promotion, transfer, punishment, retirement or for any other conditions of service of employment.

Financial Interest

Not indulge in any of the following activities:

- Borrow money from or in any way place myself under pecuniary obligation to a broker or moneylender or any firm or person having dealings with the Bank.
- Buy or sell stock, shares or securities of any description without funds to meet the full cost in the case of purchase or scripts for delivery in the case of sale.
- However, a bona-fide investment of own funds in such stocks, shares and securities as wished can be made.
- Lend money in private capacity to a constituent of the Bank or have personal dealings with a constituent in the purchase or sale of bills of exchange, Government paper or any other securities.
- Act as agent for an insurance company otherwise than as agent for or on behalf of the Bank.
- Be connected with the formation or management of a joint stock company.
- Engage in any other commercial business or pursuit, either on own account or as agent for another or others.
- Accept or seek any outside employment or office whether stipendiary or honorary.
- Undertake part-time work for a private or public body or private person, or accept fee thereof.

Gift, Favors Etc.

- Not use the employment status to seek personal gain from those doing business or seeking to do business with MCB, nor accept such gain if offered.
- Not accept any gift, favors, entertainment or other benefit the size or frequency of which exceeds normal business contacts from a constituent or a subordinate employee of the Bank or from persons likely to have dealings with the Bank and candidates for employment in the Bank.
- Not accept any benefit from the estate of, or a trust created by a customer, or from an estate or trust of which a Bank's Company or business unit is an executor, administrator or trustee.
- Not give or accept bribes or engage in any form of corruption.

CONFIDENTIALITY

- Maintain the privacy and confidentiality (during the course of employment and after its termination for whatever reason), of all the information acquired during the course

of professional activities and refrain from disclosing the same unless otherwise required by statutory authorities / law. All such information will remain as a trust and will only be used for the purpose for which it is intended and will not be used for the personal benefit of any individual(s).

- Not use for self gain, or for that of others either directly or indirectly, all inside information about Bank's customers / affairs including customer data, product manuals, confidential research work, technical processes, operating manuals, marketing plans and strategies and other confidential financial and business information of the Bank etc.
- Not trade in relevant investments or indulge in giving tips to another person or dealing on behalf of relatives, friends or any other third parties, whilst in possession of non-public price sensitive information.
- Not disclose that a suspicious transaction or related information is being reported for investigation to the customer or any irrelevant quarter.

Data Security

- Only access or update the system and data according to the authority given by the bank. Any unauthorized access or updation will hold the person liable for a penal action by the bank in accordance with HR policies.
- Not compromise access to system by communicating my identification and /or passwords to others.

Communication/ Contact with Media

- Be truthful in all advertisings and promotional efforts and to publish only accurate information about the Bank's operations under valid authority.
- Not give any interview in the print/electronic media or have the photograph displayed or an act in television/stage plays or in cinema without having permission from the competent authority.

BUSINESS / WORK ETHICS

- Respect fellow colleagues and work as a team. To be, at all times, courteous and to not let any personal differences affect work.
- Treat every customer of the Bank with respect and courtesy.

Personal Responsibility

- Demonstrate commitment to the code through words and actions.
- Be responsible for data relating to official responsibilities and to not alter / modify / amend Bank's record so as to

obtain any personal benefits, attempt which in doing so shall hold the person liable to disciplinary action as per Bank's policy.

- Safeguard as a personal responsibility, both the tangible and intangible assets of MCB and its customer(s) that are under personal control and to not use Bank's assets for personal benefits except where permitted by MCB.
- Not use any Bank facilities including a car or telephone to promote trade union activities, or carry weapons into Bank premises unless so authorized by the management, or to carry on trade union activities during office hours, or subject Bank officials to physical harassment or abuse.
- Not indulge in any kind of harassment or intimidation whether committed by or against any senior/ junior, co-worker, customer, vendor or visitor.
- Not use language, written or spoken in intra-office or communication(s) with individual(s) outside the office that may contain any statement or material that is offensive to others.
- Not engage in any discrimination against an individual's race, colour, religion, gender, age, marital status, sexual orientation or disability.

Punctuality

- Ensure good attendance and punctuality and demonstrate a consistently good record in this area.
- Obtain, for any absence during working hours, written permission of the immediate supervisor.
- Not absent oneself from assigned duties, nor leave station over night, without having first obtained the permission of the competent authority. In case of emergency, if it is not possible to obtain prior permission, necessary permission / confirmation to be obtained from the competent authority within 24 hours.

Dress Code

- Maintain a standard of personal hygiene and dress appropriate for attendance at work. The appearance must inspire confidence and convey a sense of professionalism.

WORK ENVIRONMENT

- Help in maintaining a healthy and productive work environment to meet the responsibilities to fellow employees, customers and investors, and to not get engaged in the selling, manufacturing, distributing, using any illegal substance or getting under the influence of illegal drugs while on the job.

- Ensure strict adherence to all health and safety policies as may be implemented from time to time by the Bank.

Usage of Communication Tools

- Ensure strict adherence to the use of internet, emails and telephone provided by the Bank for professional use only.
- Never use the Bank's system to transmit or receive electronic images or text containing ethnic slurs, social epithets or any thing that might be construed as harassing, offensive or insulting to others.
- Never utilize Bank's system to disseminate any material detrimental to the ideology, sovereignty or integrity of Pakistan.
- Never utilize the Bank's system for supporting any terrorist activity within and/or outside Pakistan.

REPORTING AND ACCOUNTABILITY

- Maintain all books, data, information and records with scrupulous integrity, reflecting in an accurate and timely manner and to ensure that all business transactions are reported and documented correctly according to the business practices.

Ensure facts are not misinterpreted pertaining to:

- Issuing an incorrect account statement / any other information for any customer or staff member.
- Placing a fake claim for reimbursement of any expenses.
- Unrecorded funds or assets of Bank in custody for any reason.
- Posting of false, artificial or misleading entries in the books or record of the Bank.
- Intimate Human Resources Management of any changes in the personal circumstances relating to employment or benefits.

Statement of Compliance with Best Practices of Code of Corporate Governance for the year ended December 31, 2010

This statement is being presented to comply with the requirements of Code of Corporate Governance (the Code) contained in the requirement of listing regulations of Karachi, Lahore & Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

1. The Bank encourages representation of non-executive directors on its Board of Directors. At present all the directors on the Board are non-executive except for President and CEO Mr. M.U.A. Usmani.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Bank.
3. All the resident directors of the Bank are registered taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year one casual vacancy occurred on the Board, which was filled within the prescribed period.
5. The Bank has prepared a "Statement of Ethics and Business Practices" which has been signed by all the directors and employees of the Bank.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which these were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter. Written notices of the Board meeting, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated. The Company Secretary and Chief Financial Officer attended the meetings of the Board of Directors.
9. The appointment of Chief Financial Officer, Company Secretary, and Head of Internal Audit including their remuneration and terms and conditions of employment, have been approved by the Board. However no appointments have been made during the year.
10. The Board arranged orientation courses for its directors to apprise them of their duties and responsibilities.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by the Chief Executive Officer and Chief Financial Officer before approval of the Board.
13. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Bank other than those disclosed in the annual report.
14. The Bank has complied with all the corporate and financial reporting requirements.
15. The Board has formed an audit committee. It comprises of five members, all of them are non-executive directors including the Chairman of the Committee.
16. The meetings of the audit committee are held at least once every quarter prior to approval of interim and final results of the Bank, as required by the Code. The terms of reference of the committee have been formulated and advised to the committee for compliance.
17. The Board has set up an effective internal audit function. Personnel of Internal Audit Department are suitably qualified and are involved in the internal audit function on full time basis.
18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of The Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide services other than approved services and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. All material information required under the relevant rules have been provided to the Stock Exchanges and to the Securities and Exchange Commission of Pakistan within the prescribe time limit.
21. All related party transactions entered during the year were at arm's length basis and these have been placed before the Audit Committee and Board of Directors. These transactions are duly reviewed and approved by Audit Committee and Board of Directors.
22. We confirm that all other material principles contained in the Code have been complied with.

On behalf of Directors



Mian Mohammad Mansha
Chairman

Dated: February 10, 2011

Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of MCB Bank Limited ("the Bank") for the year ended December 31, 2010, to comply with the Listing Regulations of the respective Stock Exchanges, where the Bank is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Bank personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Sub-Regulation (xiii a) of Listing Regulation 35 notified by the Karachi Stock Exchange (Guarantee) Limited vide circular KSE/ N-269 dated January 19, 2009 requires the Bank to place before the Board of Director for their consideration and approval related party transactions, distinguishing between transactions carried out on terms equivalent to those that

prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee.

We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedure to determine whether the related party transactions were undertaken at arm's length price.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2010.

Lahore
Dated: February 10, 2011

KPMG Taseer Hadi & Co.
Chartered Accountants
Farid Uddin Ahmed

Auditors' Report to the Members

We have audited the annexed statement of financial position of MCB Bank Limited ("the Bank") as at December 31, 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity, together with the notes forming part thereof (hereinafter referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for fifty branches which have been audited by us and seven branches audited by auditors abroad and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than sixty per cent of the total domestic loans and advances of the Bank, we report that:

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
 - i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity, together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2010 and its true balance of the profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Lahore
February 10, 2011

KPMG Taseer Hadi & Co.
Chartered Accountants
Farid ud Din Ahmed

Statement of Financial Position

As at December 31, 2010

	Note	2010 (Rupees in '000)	2009
Assets			
Cash and balances with treasury banks	6	45,407,183	38,774,871
Balances with other banks	7	1,478,569	6,009,993
Lendings to financial institutions	8	4,401,781	3,000,000
Investments – net	9	213,060,882	167,134,465
Advances – net	10	254,551,589	253,249,407
Operating fixed assets	11	20,947,540	18,014,896
Deferred tax assets – net		–	–
Other assets – net	12	27,705,069	23,040,095
		567,552,613	509,223,727
Liabilities			
Bills payable	14	10,265,537	8,201,090
Borrowings	15	25,684,593	44,662,088
Deposits and other accounts	16	431,371,937	367,604,711
Sub-ordinated loan		–	–
Liabilities against assets subject to finance lease		–	–
Deferred tax liabilities – net	17	4,934,018	3,196,743
Other liabilities	18	16,092,319	15,819,082
		488,348,404	439,483,714
Net assets		79,204,209	69,740,013
Represented by:			
Share capital	19	7,602,150	6,911,045
Reserves	20	40,162,906	38,385,760
Unappropriated profit		21,414,955	15,779,127
		69,180,011	61,075,932
Surplus on revaluation of assets – net of tax	21	10,024,198	8,664,081
		79,204,209	69,740,013
Contingencies and commitments	22		

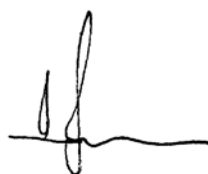
The annexed notes 1 to 46 and Annexures I to V form an integral part of these financial statements.



M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Mohammed Hussein
Director



Mian Umer Mansha
Director

Profit and Loss Account

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
Mark-up / return / interest earned	24	54,821,296	51,616,007
Mark-up / return / interest expensed	25	17,987,767	15,837,322
Net mark-up / interest income		36,833,529	35,778,685
Provision for diminution in the value of investments – net	9.3	444,476	1,484,218
Provision against loans and advances – net	10.4.2	3,100,594	5,796,527
Bad debts written off directly	10.5.1	52,047	41,576
		3,597,117	7,322,321
Net mark-up / interest income after provisions		33,236,412	28,456,364
Non-mark-up / interest income			
Fee, commission and brokerage income		4,129,540	3,455,948
Dividend income		543,906	459,741
Income from dealing in foreign currencies		632,346	341,402
Gain on sale of securities – net	26	411,834	773,768
Unrealized gain on revaluation of investments classified as held for trading		–	–
Other income	27	547,680	612,026
Total non-mark-up / interest income		6,265,306	5,642,885
		39,501,718	34,099,249
Non-mark-up / interest expenses			
Administrative expenses	28	12,173,942	10,111,330
Other provision – net	12.3	88,261	142,824
Other charges	29	986,440	690,150
Total non-mark-up / interest expenses		13,248,643	10,944,304
Extra ordinary / unusual item		–	–
Profit before taxation		26,253,075	23,154,945
Taxation – Current year		8,027,433	7,703,305
– Prior years		–	(2,232,226)
– Deferred		1,352,467	2,188,569
	30	9,379,900	7,659,648
Profit after taxation		16,873,175	15,495,297
Unappropriated profit brought forward		15,779,127	9,193,332
Transfer from surplus on revaluation of fixed assets – net of tax		21,792	22,324
		15,800,919	9,215,656
Profit available for appropriation		32,674,094	24,710,953
(Rupees)			
Basic and diluted earnings per share – after tax	33	22.20	22.38

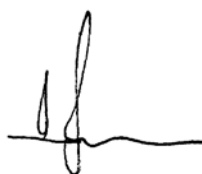
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M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Mohammed Hussein
Director



Mian Umer Mansha
Director

Statement of Comprehensive Income

For the year ended December 31, 2010

	2010	2009
	(Rupees in '000)	
Profit after tax for the year	16,873,175	15,495,297
Other comprehensive income		
Effect of translation of net investment in foreign branches	89,828	67,465
Comprehensive income transferred to equity	16,963,003	15,562,762
Components of comprehensive income not reflected in equity		
Net change in fair value of available for sale securities	216,561	3,068,752
Deferred tax	(74,473)	(571,913)
	142,088	2,496,839
Total comprehensive income for the year	17,105,091	18,059,601

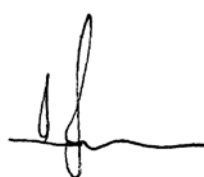
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M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Mohammed Hussein
Director



Mian Umer Mansha
Director

Cash Flow Statement

For the year ended December 31, 2010

	Note	2010	2009
		(Rupees in '000)	
Cash flows from operating activities			
Profit before taxation		26,253,075	23,154,945
Less: Dividend income		(543,906)	(459,741)
		25,709,169	22,695,204
Adjustments for non-cash charges:			
Depreciation	11.2	1,012,161	909,471
Amortization	11.3	160,352	153,39
Provision against loans and advances – net	10.4.2	3,100,594	5,796,527
Provision for diminution in the value of investments – net	9.3	444,476	1,484,218
Provision against other assets – net	12.3	88,261	142,824
Bad debts written off directly	10.5.1	52,047	41,576
Operating fixed assets written off	29	–	17,477
Gain on disposal of fixed assets – net	27	(15,993)	(30,614)
		4,841,898	8,514,876
		30,551,067	31,210,080
(Increase) / decrease in operating assets			
Lendings to financial institutions		(1,401,781)	1,100,079
Net investments in 'held for trading' securities		–	94,176
Advances – net		(4,454,823)	3,047,960
Other assets – net		(2,246,347)	(3,416,086)
		(8,102,951)	826,129
Increase / (decrease) in operating liabilities			
Bills payable		2,064,447	(2,350,378)
Borrowings		(18,977,495)	21,998,248
Deposits and other accounts		63,767,226	37,423,087
Other liabilities		1,056,341	(6,641,481)
		47,910,519	50,429,476
		70,358,635	82,465,685
Income tax paid		(11,657,474)	(4,317,603)
Net cash flows from operating activities		58,701,161	78,148,082
Cash flows from investing activities			
Net investments in 'available for sale' securities		(47,515,913)	(72,317,445)
Net investments in 'held to maturity' securities		1,445,720	3,303,107
Investment in subsidiary company		(84,139)	(394)
Dividends received		570,788	446,181
Investments in operating fixed assets		(2,572,251)	(1,893,986)
Sale proceeds of property and equipment disposed off		33,241	93,092
Net cash flows from investing activities		(48,122,554)	(70,369,445)
Cash flows from financing activities			
Dividend paid		(8,567,547)	(6,735,510)
Net cash flows from financing activities		(8,567,547)	(6,735,510)
Exchange differences on translation of the net investment in foreign branches		89,828	67,465
Increase in cash and cash equivalents		2,100,888	1,110,592
Cash and cash equivalents at beginning of the year		44,725,336	43,032,579
Effects of exchange rate changes on cash and cash equivalents		59,528	641,693
		44,784,864	43,674,272
Cash and cash equivalents at end of the year	34	46,885,752	44,784,864

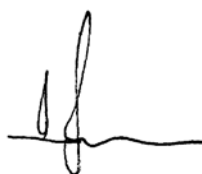
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M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Mohammed Hussein
Director



Mian Umer Mansha
Director

Statement of Changes in Equity

For the year ended December 31, 2010

	Share capital	Capital Reserves	Statutory reserve	Revenue Reserves		Total	
		Share premium	Exchange translation reserve	General reserve	Unappropriated profit		
	(Rupees in '000)						
Balance as at December 31, 2008	6,282,768	9,702,528	188,686	8,277,551	18,600,000	9,193,332	52,244,865
Changes in equity for 2009							
Profit after taxation for the year ended December 31, 2009	–	–	–	–	–	15,495,297	15,495,297
Exchange differences on translation of net investment in foreign branches	–	–	67,465	–	–	–	67,465
Total comprehensive income for the year ended December 31, 2009	–	–	67,465	–	–	15,495,297	15,562,762
Transferred from surplus on revaluation of fixed assets to unappropriated profit – net of tax	–	–	–	–	–	22,324	22,324
Transferred to statutory reserve	–	–	–	1,549,530	–	(1,549,530)	–
Issue of bonus shares – December 2008	628,277	–	–	–	–	(628,277)	–
Final cash dividend – December 2008	–	–	–	–	–	(1,570,692)	(1,570,692)
Interim cash dividend – March 2009	–	–	–	–	–	(1,727,781)	(1,727,781)
Interim cash dividend – June 2009	–	–	–	–	–	(1,727,773)	(1,727,773)
Interim cash dividend – September 2009	–	–	–	–	–	(1,727,773)	(1,727,773)
Balance as at December 31, 2009	6,911,045	9,702,528	256,151	9,827,081	18,600,000	15,779,127	61,075,932
Changes in equity for 2010							
Profit after taxation for the year ended December 31, 2010	–	–	–	–	–	16,873,175	16,873,175
Exchange differences on translation of net investment in foreign branches	–	–	89,828	–	–	–	89,828
Total comprehensive income for the year ended December 31, 2010	–	–	89,828	–	–	16,873,175	16,963,003
Transferred from surplus on revaluation of fixed assets to unappropriated profit – net of tax	–	–	–	–	–	21,792	21,792
Transferred to statutory reserve	–	–	–	1,687,318	–	(1,687,318)	–
Issue of bonus shares – December 2009	691,105	–	–	–	–	(691,105)	–
Final cash dividend – December 2009	–	–	–	–	–	(2,418,877)	(2,418,877)
Interim cash dividend – March 2010	–	–	–	–	–	(1,900,549)	(1,900,549)
Interim cash dividend – June 2010	–	–	–	–	–	(2,280,645)	(2,280,645)
Interim cash dividend – September 2010	–	–	–	–	–	(2,280,645)	(2,280,645)
Balance as at December 31, 2010	7,602,150	9,702,528	345,979	11,514,399	18,600,000	21,414,955	69,180,011

For details of dividend declaration and appropriations, please refer note 45 to these financial statements.

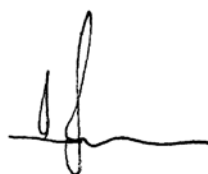
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M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Mohammed Hussein
Director



Mian Umer Mansha
Director

Notes to the Financial Statements

For the year ended December 31, 2010

1. STATUS AND NATURE OF BUSINESS

MCB Bank Limited (the 'Bank') is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The Bank's ordinary shares are listed on all the stock exchanges in Pakistan whereas its Global Depository Receipts (GDRs) representing two ordinary shares (2009: two ordinary shares) are traded on the International Order Book (IOB) system of the London Stock Exchange. The Bank's Registered Office and Principal Office are situated at MCB Building, Jinnah Avenue, Islamabad and MCB -15 Main Gulberg, Lahore, respectively. The Bank operates 1,125 branches including 14 Islamic banking branches (2009: 1,074 branches including 11 Islamic banking branches) within Pakistan and 7 branches (2009: 7 branches) outside the country (including the Karachi Export Processing Zone branch).

2. BASIS OF PRESENTATION

2.1 These financial statements represent separate financial statements of MCB Bank Limited. The consolidated financial statements of the Group are being issued separately.

2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

2.3 The financial results of the Islamic Banking branches have been consolidated in these financial statements for reporting purposes, after eliminating material inter-branch transactions / balances. Key financial figures of the Islamic Banking branches are disclosed in Annexure II to these financial statements.

2.4 For the purpose of translation, rates of Rs. 85.6367 per US Dollar (2009: Rs. 84.2416) and Rs. 0.7718 per LKR (2009: Rs.0.7364) have been used.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved Accounting

Standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962. In case requirements differ, the provisions and directives given in Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 shall prevail.

The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. The Securities and Exchange Commission of Pakistan (SECP) has deferred applicability of IFRS-7 "Financial Instruments: Disclosures" on banks through S.R.O 411(1) /2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

3.2 Standards, amendments and interpretations to published approved accounting standards that are not relevant and not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2011. These standards are either not relevant to the Bank's operations or are not expected to have a significant impact on the Bank's financial statements other than increase in disclosures in certain cases:

- Amendment to IAS-32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 01, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Bank's financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on

Notes to the Financial Statements

For the year ended December 31, 2010

or after July 01, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on Bank's financial statements.

- IAS 24 – Related Party Disclosures (revised 2009) effective for annual periods beginning on or after January 01, 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 01, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Bank's financial statements.
- Improvements to IFRSs 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 1, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.
- Amendments to IFRS 7 – Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after July 1, 2011). The amendments introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. This amendment has no impact on Bank's financial statements.

4. BASIS OF MEASUREMENT

- 4.1** These financial statements have been prepared under the historical cost convention except that certain

classes of fixed assets are stated at revalued amounts and certain investments, commitments in respect of certain forward exchange contracts and derivative financial instruments have been marked to market and are carried at fair value.

- 4.2** The financial statements are presented in Pak Rupees, which is the Bank's functional and presentation currency. The amounts are rounded off to the nearest thousand.

4.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experiences, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in the application of accounting policies are as follows:

a) Classification of investments

- In classifying investments as 'held for trading', the Bank has determined securities which are acquired with an intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.
- In classifying investments as 'held to maturity', the Bank follows the guidance provided in SBP circulars on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investment to maturity.
- The investments which are not classified as 'held for trading' or 'held to maturity' are classified as 'available for sale'.

b) Provision against advances

The Bank reviews its loan portfolio to assess the amount of non-performing advances and provision required there against on regular basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrowers and the requirements of the Prudential Regulations are considered.

Notes to the Financial Statements

For the year ended December 31, 2010

The amount of general provision is determined in accordance with the relevant regulations and management's judgment as explained in notes 10.4.3 and 10.4.5.

c) Impairment of 'available for sale' equity investments

The Bank determines that 'available for sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of the investee and sector performance, changes in technology and operational/financial cash flows.

d) Taxation

In making the estimates for income taxes currently payable by the Bank, the management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past.

e) Fair value of derivatives

The fair values of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates at the statement of financial position date and the rates contracted.

f) Depreciation, amortization and revaluation of operating fixed assets

In making estimates of the depreciation / amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the changed pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Further, the Bank estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers under the market conditions.

g) Staff retirement benefits

Certain actuarial assumptions have been adopted as

disclosed in these financial statements (note 36) for the actuarial valuation of staff retirement benefit plans. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may affect the liability / asset under these plans in those years.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Investments

The Bank classifies its investments as follows:

a) Held for trading

These are securities, which are either acquired for generating profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity in respect of which the Bank has the positive intent and ability to hold to maturity.

c) Available for sale

These are investments, other than those in subsidiaries and associates, that do not fall under the 'held for trading' or 'held to maturity' categories.

Investments are initially recognized at cost which in case of investments other than 'held for trading' include transaction costs associated with the investment.

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognized at the trade date. Trade date is the date on which the Bank commits to purchase or sell the investment.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than those classified as 'held to maturity', investments in subsidiaries and investments in associates are subsequently re-measured to market value. Surplus / deficit arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the statement of financial position below equity. Surplus / deficit arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account currently.

Notes to the Financial Statements

For the year ended December 31, 2010

Unquoted equity securities (excluding investments in subsidiaries and associates) are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments classified as 'held to maturity' are carried at amortized cost. Investments in subsidiaries and investments in associates are carried at cost.

Provision for impairment in the values of securities (except debentures, participation term certificates and term finance certificates) is made currently. Provisions for impairment in value of debentures, participation term certificates and term finance certificates are made as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

5.2 Sale and repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. Securities purchased under an agreement to resell (reverse repo) are not recognized in the financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. The difference between the purchase / sale and re-sale / re-purchase price is recognized as mark-up income / expense on a time proportion basis, as the case may be.

5.3 Advances

Advances are stated net of specific and general provisions. Specific provision is determined on the basis of the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against consumer loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on advances. Advances are written off when there is no realistic prospect of recovery.

Leases where the Bank transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as financial leases. A receivable is recognized at an amount equal to the present value of the lease payments including any guaranteed residual value. Finance lease receivables are included in advances to the customers.

5.4 Operating fixed assets and depreciation

Property and equipment, other than land carrying value of which is not amortized, are stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses (if any). Land is carried at revalued amount. Capital work-in-progress is stated at cost less accumulated impairment losses (if any). Cost of property and equipment of foreign operations includes exchange differences arising on currency translation at year-end rates.

Depreciation on all operating fixed assets is charged using the diminishing balance method except for vehicles, computers, carpets and buildings which are depreciated using the straight line method in accordance with the rates specified in note 11.2 to these financial statements and after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each statement of financial position date.

Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

Surplus on revaluation of land and buildings is credited to the surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

Gains / losses on sale of property and equipment are credited / charged to the profit and loss account currently, except that the related surplus on revaluation of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account.

5.4.1 Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized from the month

Notes to the Financial Statements

For the year ended December 31, 2010

when these assets are available for use, using the straight line method, whereby the cost of the intangible assets are amortized over its estimated useful lives over which economic benefits are expected to flow to the Bank. The useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date.

5.4.2 Leased (Ijarah)

Assets leased out under 'Ijarah' are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Assets under Ijarah are depreciated over the period of lease term. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of the asset using straight line basis.

Ijarah income is recognized on an accrual basis as and when the rental becomes due.

5.5 Impairment

The carrying amount of assets are reviewed at each statement of financial position date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. Recoverable amount is the greater of net selling price and value in use. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

5.6 Staff retirement benefits

The Bank operates the following staff retirement benefits for its employees:

- a) For clerical / non-clerical staff who did not opt for the new scheme, the Bank operates the following:
 - an approved contributory provident fund;
 - an approved gratuity scheme; and
 - a contributory benevolent scheme
- b) For clerical / non-clerical staff who joined the Bank after the introduction of the new scheme and for others who opted for the new scheme introduced in 1975, the Bank operates the following:
 - an approved non-contributory provident fund introduced in lieu of the contributory provident fund;
 - an approved pension fund; and
 - contributory benevolent scheme

- c) For officers who joined the Bank after the introduction of the new scheme and for others who opted for the new scheme introduced in 1977, the Bank operates the following:

- an approved non-contributory provident fund introduced in lieu of the contributory provident fund; and
- an approved pension fund.
- contributory benevolent fund.

However, the management has replaced the pension benefits for employees in the officer category with a contributory provident fund for services rendered after December 31, 2003.

- d) For executives and officers who joined the Bank on or after January 01, 2000 the Bank operates an approved contributory provident fund.

- e) Post retirement medical benefits to entitled employees.

Annual contributions towards the defined benefit plans and schemes are made on the basis of actuarial advice using the projected unit credit method. The above benefits are payable to staff at the time of separation from the Bank's services subject to the completion of qualifying period of service. The net cumulative actuarial gains / losses at each statement of financial position date are recognized equally over a period of three years or the expected remaining average working lives of employees, whichever is lower.

Past service cost resulting from changes to defined benefit plans to the extent the benefits are already vested is recognized immediately and the remaining unrecognized past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested.

5.7 Employees' compensated absences

Liability in respect of employees' compensated absences is accounted for in the year in which these are earned on the basis of actuarial valuation carried out using the Projected Unit Credit Method. Actuarial gains or losses if any, are recognized immediately.

5.8 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration available tax credits and rebates. The charge for current tax also includes adjustments where considered necessary, relating to prior years which

Notes to the Financial Statements

For the year ended December 31, 2010

arise from assessments framed / finalized during the year.

Deferred

Deferred tax is recognised using the statement of financial position liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The Bank records deferred tax assets / liabilities using the tax rates, enacted or substantively enacted by the statement of financial position date expected to be applicable at the time of its reversal. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities and deferred tax liability on surplus on revaluation of fixed assets which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS) 12, 'Income Taxes'.

Deferred tax liability is not recognized in respect of taxable temporary differences associated with exchange translation reserves of foreign operations, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

5.9 Provisions

Provisions are recognized when the Bank has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimates.

5.10 Foreign currencies

5.10.1 Foreign currency transactions

Transactions in foreign currencies (other than the results of foreign operations discussed in note 5.10.2) are translated to Rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the statement of financial position date. Foreign bills purchased and forward foreign exchange contracts other than those relating to foreign currency deposits are valued at the rates applicable to their respective maturities.

5.10.2 Foreign operations

The assets and liabilities of foreign branches are translated to Rupees at exchange rates prevailing at the statement of financial position date. The results of foreign operations are translated to Rupees at the average rate of exchange for the year.

5.10.3 Translation gains and losses

Translation gains and losses are included in the profit and loss account, except those arising on the translation of the Bank's net investment in foreign branches, which are taken to the capital reserve (exchange translation reserve).

5.10.4 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in these financial statements at committed amounts. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Rupee terms at the rates of exchange ruling on the statement of financial position date.

5.11 Revenue recognition

- Mark-up / interest on advances and returns on investments are recognized on a time proportion basis using the effective interest method except that mark-up / interest on non-performing advances and investments is recognized on a receipt basis, in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan (SBP) or as permitted by the regulations of the overseas regulatory authorities of the countries where the branches operate.
- Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gains / losses on termination of lease contracts are recognized as income when these are realized.
- Unrealized lease income is held in suspense account, where necessary, in accordance with the requirements of SBP or overseas regulatory authorities of the country where the foreign branches of the Bank operate.

Notes to the Financial Statements

For the year ended December 31, 2010

- Commission income is recognized on a time proportion basis.
- Dividend income is recognized when the Bank's right to receive dividend is established.
- Gain / loss on sale of investments is credited / charged to profit and loss account currently.

5.12 Operating leases

Operating lease rentals are recorded in profit and loss account on a time proportion basis over the term of the lease arrangements.

5.13 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks in current and deposit accounts.

5.14 Financial instruments

5.14.1 Financial assets and financial liabilities

Financial instruments carried on the statement of financial position include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments (excluding investment in associates and subsidiaries), advances, other assets, bills payable, borrowings, deposits and other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

5.14.2 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value using valuation techniques. All the derivative financial instruments are carried as an asset when the fair value is positive and liability when the fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account currently.

5.14.3 Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the Bank intends either to settle on a net basis, or to realize the assets and settle the liabilities, simultaneously.

5.15 Share issuance cost

Share issuance cost directly attributable to issuance of shares, is recognized as deduction from the share premium account.

5.16 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format of reporting is based on business segments.

5.16.1 Business segments

Corporate Finance

Corporate Finance includes underwriting, securitization, investment banking, syndications, IPO related activities (excluding investments) and secondary private placements.

Trading and Sales

It includes fixed income, equity, foreign exchange commodities, lendings to financial institutions and brokerage debt.

Retail and Consumer Banking

It includes retail lending and deposits, banking services, private lending and deposits, banking services and retail offered to its retail customers and small and medium enterprises.

Commercial Banking

It includes project finance, export finance, trade finance, leasing, lending, guarantees and bills of exchange relating to its corporate customers.

5.16.2 Geographical segments

The Bank operates in three geographic regions being:

- Pakistan
- Asia Pacific (including South Asia)
- Middle East

5.17 Dividend distribution and appropriation

Dividends (including bonus dividend) and other appropriations (except appropriations which are required by law) are recognized in the period in which these are approved.

Notes to the Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand – local currency	6.1	9,103,182	9,104,489
– foreign currencies		1,539,991	1,059,928
With State Bank of Pakistan (SBP) in:			
Local currency current account	6.2	20,062,585	17,221,148
Foreign currency current account	6.3	34,673	7,464
Foreign currency deposit account	6.2 & 6.4	3,966,291	3,363,399
With other central banks in foreign currency current account	6.2	329,632	324,287
With National Bank of Pakistan in local currency current account		10,370,829	7,694,156
		<u>45,407,183</u>	<u>38,774,871</u>

6.1 This includes national prize bonds amounting to Rs. 67.097 million (2009: Rs. 80.591 million).

6.2 Deposits with SBP are maintained to comply with their requirements issued from time to time. Deposits with other central banks are maintained to meet their minimum cash reserves and capital requirements pertaining to the foreign branches of the Bank.

6.3 This represents US Dollar settlement account maintained with SBP.

6.4 This includes balance of Rs. 2,974.718 million (2009: Rs. 2,522.549 million) which carry interest rate of 0% per annum (2009: 0% per annum) as declared by SBP.

	Note	2010 (Rupees in '000)	2009
7. BALANCES WITH OTHER BANKS			
Outside Pakistan			
– current account		1,074,315	5,059,663
– deposit account	7.1	404,254	950,330
		<u>1,478,569</u>	<u>6,009,993</u>

7.1 Balances with other banks outside Pakistan in deposit account carry interest at the rate ranging from 0.55% to 3% per annum (2009: 0.12% to 1% per annum).

Notes to the Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings	8.2	1,500,000	3,000,000
Repurchase agreement lendings	8.3	2,901,781	–
		<u>4,401,781</u>	<u>3,000,000</u>
8.1 Particulars of lendings			
In local currency		4,391,754	3,000,000
In foreign currencies		10,027	–
		<u>4,401,781</u>	<u>3,000,000</u>

8.2 These carry mark-up rates ranging from 12.80% to 13.50% per annum (2009: 12.35% to 12.70% per annum) and are due to mature latest by March 2011.

8.3 Securities held as collateral against lendings to financial institutions

	2010			2009		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	(Rupees in '000)					
Market Treasury Bills	922,947	–	922,947	–	–	–
Pakistan Investment Bonds	1,978,834	–	1,978,834	–	–	–
	<u>2,901,781</u>	<u>–</u>	<u>2,901,781</u>	<u>–</u>	<u>–</u>	<u>–</u>

Market value of securities held as collateral against lendings to financial institutions as at December 31, 2010 amounted to Rs. 2,922.541 million (2009: NIL). These carry mark up rates ranging from 12.80% to 12.85% per annum (2009: NIL).

Notes to the Financial Statements

For the year ended December 31, 2010

9. INVESTMENTS – NET

9.1 Investments by types

		2010			2009		
	Note / Annexure	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
(Rupees in '000)							
Available-for-sale securities							
– Market Treasury Bills	9.4	174,114,758	11,840,440	185,955,198	108,056,249	31,513,525	139,569,774
– Pakistan Investment Bonds	9.4	4,764,252	–	4,764,252	5,454,941	–	5,454,941
– Shares in listed companies	9.4 & Annexure I (note 1)	6,680,635	–	6,680,635	7,133,214	–	7,133,214
– Units in open ended mutual fund	9.4 & Annexure I (note 1)	182,981	–	182,981	442,981	–	442,981
– Shares in unlisted companies	9.4 & Annexure I (note 2)	523,915	–	523,915	513,843	–	513,843
– NIT units		5,253	–	5,253	5,253	–	5,253
– Sukuk Bonds	9.4 & Annexure I (note 3)	2,100,000	–	2,100,000	400,000	–	400,000
– Term Finance Certificates (TFCs)	9.4 & Annexure I (note 3)	1,672,200	–	1,672,200	1,831,777	–	1,831,777
		190,043,994	11,840,440	201,884,434	123,838,258	31,513,525	155,351,783
Held-to-maturity securities							
– Market Treasury Bills	9.5	3,155,635	–	3,155,635	3,251,110	136,038	3,387,148
– Pakistan Investment Bonds	9.5	2,172,165	–	2,172,165	2,244,383	–	2,244,383
– Federal Government Securities	Annexure I (note 4)	–	–	–	171,583	–	171,583
– Provincial Government Securities		118	–	118	118	–	118
– Government Compensation Bonds		–	–	–	286,557	–	286,557
– Sukuk Bonds	Annexure I (note 4)	1,427,762	–	1,427,762	2,753,929	–	2,753,929
– Euro Bonds	Annexure I (note 4)	1,446,590	–	1,446,590	684,810	–	684,810
– Term Finance Certificates (TFCs), Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 3)	4,099,810	–	4,099,810	4,250,714	–	4,250,714
		12,302,080	–	12,302,080	13,643,204	136,038	13,779,242
Subsidiaries							
	Annexure I (note 5)						
– MNET Services (Private) Limited		49,975	–	49,975	49,975	–	49,975
– MCB Trade Services Limited		77	–	77	77	–	77
– MCB Asset Management Company Limited		299,980	–	299,980	299,980	–	299,980
– MCB Leasing* Closed Joint Stock Company		84,533	–	84,533	394	–	394
– MCB Financial Services Limited		27,500	–	27,500	27,500	–	27,500
		462,065	–	462,065	377,926	–	377,926
Associates							
	Annexure I (note 6)						
Adamjee Insurance Company Limited	9.6	943,600	–	943,600	943,600	–	943,600
First Women Bank Limited		63,300	–	63,300	63,300	–	63,300
		1,006,900	–	1,006,900	1,006,900	–	1,006,900
Investments at cost							
		203,815,039	11,840,440	215,655,479	138,866,288	31,649,563	170,515,851
Less: Provision for diminution in value of investments	9.3	(3,116,292)	–	(3,116,292)	(3,686,520)	–	(3,686,520)
Investments (net of provisions)							
		200,698,747	11,840,440	212,539,187	135,179,768	31,649,563	166,829,331
Surplus / (deficit) on revaluation of available for sale securities – net	21.2	534,095	(12,400)	521,695	331,588	(26,454)	305,134
Investments at revalued amounts – net of provisions							
		201,232,842	11,828,040	213,060,882	135,511,356	31,623,109	167,134,465

Notes to the Financial Statements

For the year ended December 31, 2010

	Note / Annexure	2010 (Rupees in '000)	2009
9.2 Investments by segments			
Federal Government Securities:			
– Market Treasury Bills	9.4	185,955,198	139,569,774
– Pakistan Investment Bonds	9.4	6,936,417	7,699,324
– Federal Government Securities		–	171,583
– Government Compensation Bonds		–	286,557
– Euro Bonds	Annexure I (note 4)	1,446,590	684,810
– Sukuk Bonds	Annexure I (note 3 & 4)	2,500,000	1,503,702
– Unlisted Term Finance Certificate	Annexure I (note 3)	2,250,000	3,000,000
Overseas Government Securities:			
– Market Treasury Bills – Sri Lanka		3,155,635	3,387,148
Provincial Government Securities		118	118
Subsidiaries and Associated Undertakings	9.6 & Annexure I (note 5 & 6)	1,468,965	1,384,826
Fully Paid-up Ordinary Shares / Certificates / Units:			
– Listed companies / mutual funds / modarabas	Annexure I (note 1)	6,619,033	7,071,612
– Unlisted companies / funds	Annexure I (note 2)	423,915	413,843
Units of Open Ended Mutual Funds	Annexure I (note 1)	182,981	442,981
Fully Paid-up Preference Shares:			
– Listed Companies	Annexure I (note 1)	61,602	61,602
– Unlisted Companies	Annexure I (note 2)	100,000	100,000
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
– Listed Term Finance Certificates	Annexure I (note 3)	1,672,200	1,831,777
– Unlisted Term Finance Certificates	Annexure I (note 3)	1,758,446	1,129,096
– Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 3)	91,364	121,618
Other Investments:			
– Sukuk Bonds	Annexure I (note 4)	1,027,762	1,650,227
– NIT Units		5,253	5,253
Total investments at cost		215,655,479	170,515,851
Less: Provision for diminution in the value of investments	9.3	(3,116,292)	(3,686,520)
Investments (net of provisions)		212,539,187	166,829,331
Surplus on revaluation of available for sale securities – net	21.2	521,695	305,134
Investments at revalued amounts – net of provisions		213,060,882	167,134,465

Notes to the Financial Statements

For the year ended December 31, 2010

	2010	2009
	(Rupees in '000)	
9.3 Particulars of provision		
Opening balance	3,686,520	3,044,962
Charge during the year	458,070	1,538,895
Reversal made during the year	(13,594)	(54,677)
	444,476	1,484,218
Reversal on disposal of shares	(983,262)	(772,463)
Adjustments due to reclassification	(31,140)	–
Investment written off against provision	(302)	(70,197)
Closing balance	3,116,292	3,686,520
9.3.1 Particulars of provision in respect of Type and Segment		
Available-for-sale securities		
Listed shares / Certificates / Units	2,724,181	3,510,603
Unlisted shares	70,645	71,716
	2,794,826	3,582,319
Held-to-maturity securities		
Unlisted TFCs, Debentures, Bonds and Participation Term Certificates	321,466	104,201
	3,116,292	3,686,520

9.4 Quality of 'available for sale' securities

		2010		2009	
	Note	Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Market Treasury Bills	9.4.1	185,624,971	Unrated	139,261,981	Unrated
Pakistan Investment Bonds	9.4.1	4,435,059	Unrated	5,331,065	Unrated
Listed Term Finance Certificates					
Askari Bank Limited		253,473	AA–	435,623	AA–
Bank Al-Habib Limited		–	–	91,619	AA
Bank Alfalah Limited		505,153	AA–	725,109	AA–
United Bank Limited		686,225	AA	244,962	AA
Allied Bank Limited		146,252	AA–	–	AA–
Soneri Bank Limited		–	A+	144,391	A+
Pak Arab Fertilizers Limited		97,000	AA	93,840	AA
		1,688,103		1,735,544	
Shares in Listed Companies					
Abbott Laboratories Pakistan Limited		14,881	Not available	16,437	Not available
Allied Bank Limited		342,733	AA & A1+	167,045	AA & A1+
Arif Habib Limited		2,038	Not available	6,613	Not available
Arif Habib Corporation Limited (formerly Arif Habib Securities Limited)		38,079	Not available	75,377	Not available
Arif Habib Investments Limited		13,826	A & A1	–	–
Askari Bank Limited		113,744	AA & A1+	146,279	AA & A1+
Atlas Bank Limited		2,465	A– & A2	5,309	A– & A2
Attock Petroleum Limited		132,585	Not available	37,585	Not available
Azgard Nine Limited – preference shares		11,602	A+ & A1	11,370	A+ & A1
Bank Alfalah Limited		3,382	AA & A1+	70,002	AA & A1+
Bank Al-Habib Limited		241,804	AA+ & A1+	178,641	AA+ & A1+
Century Papers and Board Mills Limited		919	A+	11,655	A– & A–2

Notes to the Financial Statements

For the year ended December 31, 2010

Note	2010		2009	
	Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
EFU General Insurance Company Limited	—	—	1,175	AA
EFU Life Assurance Company Limited	—	—	1,041	AA—
Engro Corporation Limited	—	—	123,918	AA & A1+
Fauji Fertilizer Bin Qasim Company Limited	192,955	Not available	106,942	Not available
Fauji Fertilizer Company Limited	1,090,321	Not available	516,991	Not available
First AI – Noor Modaraba	16,104	BBB & A–3	15,660	BBB & A–3
Glaxo Smithkline Pakistan Limited	42,743	Not available	52,960	Not available
Habib Bank Limited	66,428	AA+ & A–1+	212,420	AA+ & A–1+
Habib Metropolitan Bank Limited	33,628	AA+ & A–1+	21,509	AA+ & A–1+
Hub Power Company Limited	—	—	38,537	Not available
Ibrahim Fiber Limited	1,264	A+ & A1	—	—
IGI Insurance Limited	26,113	AA	38,715	AA
Indus Motors Company Limited	6,824	Not available	8,259	Not available
International Industries Limited	20,645	Not available	22,460	Not available
Jahangir Siddique & Company Limited	—	—	34,775	AA+ & A1+
Kohinoor Energy Limited	1,198	Not available	1,705	Not available
Kot Addu Power Company Limited	57,220	Not available	64,521	Not available
Lucky Cement Limited	—	—	11,592	Not available
Maple Leaf Cement Company Limited	11,002	BB & B	14,414	Not available
Masood Textile Mills Limited – preference shares	50,000	Not available	50,000	Not available
Mehr Dastagir Textile Mills Limited	3,234	Not available	323	Not available
Millat Tractors Limited	90,990	Not available	22,421	Not available
National Bank of Pakistan Limited	—	—	151,170	AAA & A–1+
National Refinery Limited	—	—	5,305	AAA & A1+
Oil & Gas Development Company Limited	5,213	AAA & A–1+	20,520	AAA & A–1+
Orix Leasing Pakistan Limited	—	—	1,675	AA & A1+
Packages Limited	5,133	AA & A1+	3,155	AA & A1+
Pak Suzuki Motor Company Limited	—	—	4,412	Not available
Pakistan Cables Limited	2,342	Not available	4,423	Not available
Pakistan Oilfields Limited	155,823	Not available	97,090	Not available
Pakistan Petroleum Limited	124,802	Not available	174,064	Not available
Pakistan State Oil Company Limited	—	—	56,990	AA+ & A1+
Pakistan Telecommunication Company Limited	98,143	Not available	86,374	Not available
Pakistan Tobacco Company Limited	5,401	Not available	14,563	Not available
Rupali Polyester Limited	23,708	Not available	24,893	Not available
Samba Bank Limited	60,688	A & A–1	102,487	A & A–1
Soneri Bank Limited	32,766	AA– & A1+	37,850	AA– & A1+
** Sui Northern Gas Pipelines Limited	1,276,269	AA & A1+	1,183,675	AA & A1+
Thal Limited	—	—	3,807	Not available
The Bank of Punjab	63,011	AA– & A1+	125,250	AA– & A1+
* Trust Securities & Brokerage Limited	525	Not available	948	Not available
Unilever Pakistan Limited	145,106	Not available	76,544	Not available
United Bank Limited	475,389	AA+ & A–1+	138,550	AA+ & A–1+
Wateen Telecom Limited	28,994	A & A–2	—	—
Zulfiqar Industries Limited	1,707	Not available	2,001	Not available
	5,133,747		4,402,397	
Open Ended Mutual Fund				
Atlas Islamic Fund	—	—	10,239	Not available
MCB Dynamic Allocation Fund	77,327	AM3+	80,691	AM3+
MCB Dynamic Cash Fund	—	—	327,366	AM3+
MCB Dynamic Stock Fund	100,624	AM3+	83,705	AM3+
	177,951		502,001	

Notes to the Financial Statements

For the year ended December 31, 2010

	Note	2010		2009	
		Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Shares in Un-listed Companies	9.4.2				
* Khushhali Bank Limited		300,000	A- & A-2	300,000	A-2 & A-
* National Investment Trust Limited		100	AM2	100	AM-DS
* SME Bank Limited		10,106	BBB & A-3	10,106	A-3 & BBB
First Capital Investment (Private) Limited		2,500	AM4+	2,446	AM4+
Pak Asian Fund		11,500	Not available	11,500	Not available
Pakistan Agro Storage and Services Corporation		—	—	2,500	Not available
* Arabian Sea Country Club		4,481	Not available	715	Not available
* Central Depository Company of Pakistan Limited		10,000	Not available	10,000	Not available
* National Institutional Facilitation Technologies (Private) Limited		1,527	Not available	1,527	Not available
Society for Worldwide Inter Fund Transfer (SWIFT)		1,738	Not available	1,738	Not available
Fazal Cloth Mills Limited – preference share		100,000	A- & A2	100,000	Not available
Next Capital Limited		9,752	Not available	—	—
Lanka Clearing (Private) Limited		772	Not available	736	Not available
Lanka Financial Services Bureau Limited		772	Not available	737	Not available
Credit Information Bureau of Srilanka		23	Not available	22	Not available
		453,271		442,127	
Other Investments					
Sukuk Bonds	9.4.1	2,094,727	Unrated	396,137	Unrated
N.I.T. Units		3,475	AM2	3,346	5 Star
		199,611,304		152,074,598	

9.4.1 These are Government of Pakistan guaranteed securities.

9.4.2 Investments in unlisted companies are stated at carrying value. The above excludes unlisted shares of companies which are fully provided for in these financial statements.

* These are the strategic investments of the Bank.

** This includes 32.287 million shares valuing Rs. 863.355 million (2009: 32.287 million shares valuing Rs. 800.718 million) which are held as strategic investment by the Bank.

Notes to the Financial Statements

For the year ended December 31, 2010

- 9.5** "Available for sale" Market Treasury Bills and Pakistan Investment Bonds are eligible for rediscounting with the State Bank of Pakistan (SBP). The market value of Pakistan Investment Bonds and Market Treasury Bills classified as 'held to maturity' as at December 31, 2010 amounted to Rs. 1,848.956 million and Rs. 3,155.635 million (2009: Pakistan Investment Bonds Rs. 1,867.674 million and Market Treasury Bills Rs. 3,387.148 million) respectively.
- 9.6** Investment of the Bank in Adamjee Insurance Company Limited is carried at cost amounting to Rs. 943.600 million (2009: Rs. 943.600 million) as at December 31, 2010 in accordance with the treatment specified in International Accounting Standard (IAS) 28 "Accounting for Investments in Associates". The market value of the investment in Adamjee Insurance Company Limited as at December 31, 2010 amounted to Rs. 3,152.948 million (2009: Rs. 4,039.049 million).
- 9.7** At December 31, 2010 market value of quoted investments was Rs. 207,710.300 million (2009: Rs. 161,322.481 million) while the book value of unquoted investments was Rs. 7,231.451 million (2009: Rs. 8,526.863 million).
- 9.8** Investments include Pakistan Investment Bonds amounting to Rs. 232.60 million (2009: Rs. 232.60 million) earmarked by the SBP and National Bank of Pakistan against TT / DD discounting facilities and demand note facilities sanctioned to the Bank. In addition, Pakistan Investment Bonds amounting to Rs. 5 million (2009: Rs. 5 million) have been pledged with the Controller of Military Accounts on account of Regimental Fund account.
- 9.9** Information relating to investments in ordinary shares and preference shares of listed companies and unlisted companies required to be disclosed as part of the financial statements under BSD Circular No.04 of 2006 dated February 17, 2006, is given in Annexure "I".
- 9.10** Certain approved Government securities are kept with the SBP to meet statutory liquidity requirements calculated on the basis of domestic demand and time liabilities.

Notes to the Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
10. ADVANCES – NET			
Loans, cash credits, running finances, etc.			
In Pakistan		250,395,183	247,718,210
Outside Pakistan		9,104,266	7,788,234
		<u>259,499,449</u>	<u>255,506,444</u>
Net investment in finance lease	10.2		
In Pakistan		2,333,616	3,867,943
Outside Pakistan		86,429	65,492
		<u>2,420,045</u>	<u>3,933,435</u>
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		1,274,149	4,519,520
Payable outside Pakistan		10,950,281	5,762,777
		<u>12,224,430</u>	<u>10,282,297</u>
Advances – gross		<u>274,143,924</u>	<u>269,722,176</u>
Provision against advances	10.4		
Specific provision	10.3	(18,930,571)	(15,678,345)
General provision	10.4.3	(274,144)	(269,722)
General provision against consumer loans	10.4.5	(357,352)	(494,434)
General provision for potential lease losses (in Srilanka operations)		(30,268)	(30,268)
		<u>(19,592,335)</u>	<u>(16,472,769)</u>
Advances – net of provision		<u>254,551,589</u>	<u>253,249,407</u>
10.1 Particulars of advances (gross)			
10.1.1 In local currency		253,009,362	258,501,232
In foreign currencies		21,134,562	11,220,944
		<u>274,143,924</u>	<u>269,722,176</u>
10.1.2 Short-term		192,749,318	178,869,203
Long-term		81,394,606	90,852,973
		<u>274,143,924</u>	<u>269,722,176</u>

10.2 Net investment in finance lease

	2010				2009			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
(Rupees in '000)								
Lease rentals receivable	714,095	1,313,501	1,362	2,028,958	669,185	2,760,233	8,348	3,437,766
Guaranteed residual value	404,732	294,465	254	699,451	210,340	815,464	11,760	1,037,564
Minimum lease payments	1,118,827	1,607,966	1,616	2,728,409	879,525	3,575,697	20,108	4,475,330
Finance charge for future periods	(117,982)	(190,021)	(361)	(308,364)	(87,632)	(453,294)	(969)	(541,895)
Present value of minimum lease payments	<u>1,000,845</u>	<u>1,417,945</u>	<u>1,255</u>	<u>2,420,045</u>	<u>791,893</u>	<u>3,122,403</u>	<u>19,139</u>	<u>3,933,435</u>

Notes to the Financial Statements

For the year ended December 31, 2010

- 10.3** Advances include Rs. 24,543.807 million (2009: Rs. 23,238.723 million) which have been placed under the non-performing status as detailed below:

		2010								
Category of Classification	Note	Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)										
Other Assets Especially Mentioned (OAEM)	10.3.1	57,057	–	57,057	–	–	–	–	–	–
Substandard		1,539,019	864	1,539,883	349,703	216	349,919	349,703	216	349,919
Doubtful		2,139,457	2,755	2,142,212	1,014,758	1,377	1,016,135	1,014,758	1,377	1,016,135
Loss		16,688,531	4,116,124	20,804,655	16,310,419	1,254,098	17,564,517	16,310,419	1,254,098	17,564,517
		20,424,064	4,119,743	24,543,807	17,674,880	1,255,691	18,930,571	17,674,880	1,255,691	18,930,571
2009										
Category of Classification	Note	Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)										
Other Assets Especially Mentioned (OAEM)	10.3.1	76,933	–	76,933	–	–	–	–	–	–
Substandard		2,960,881	24,728	2,985,609	691,234	5,506	696,740	691,234	5,506	696,740
Doubtful		4,242,845	–	4,242,845	1,920,370	–	1,920,370	1,920,370	–	1,920,370
Loss		11,965,808	3,967,528	15,933,336	11,683,932	1,377,303	13,061,235	11,683,932	1,377,303	13,061,235
		19,246,467	3,992,256	23,238,723	14,295,536	1,382,809	15,678,345	14,295,536	1,382,809	15,678,345

- 10.3.1** This represents non-performing portfolio of agricultural financing classified as OAEM as per the requirements of the Prudential Regulation for Agricultural Financing issued by the State Bank of Pakistan.

Note	2010				
	Specific	General	General provision against consumer loans	Leasing (general)	Total
	(Rupees in '000)				
10.4 Particulars of provision against advances					
Opening balance	15,678,345	269,722	494,434	30,268	16,472,769
Exchange adjustments	20,890	–	–	–	20,890
Provision made during the year	5,989,585	4,422	–	–	5,994,007
Reversals	(2,756,331)	–	(137,082)	–	(2,893,413)
	3,233,254	4,422	(137,082)	–	3,100,594
Amounts written off	(1,918)	–	–	–	(1,918)
Closing balance	18,930,571	274,144	357,352	30,268	19,592,335
2009					
Note	Specific	General	General provision against consumer loans	Leasing (general)	Total
	(Rupees in '000)				
	(Rupees in '000)				
Opening balance	9,895,889	273,222	533,693	9,051	10,711,855
Exchange adjustments	87,498	–	–	–	87,498
Provision made during the year	7,524,063	–	–	21,217	7,506,021
Reversals	(1,705,994)	(3,500)	(39,259)	–	(1,709,494)
	5,818,069	(3,500)	(39,259)	21,217	5,796,527
Amounts written off	(123,111)	–	–	–	(123,111)
Closing balance	15,678,345	269,722	494,434	30,268	16,472,769

Notes to the Financial Statements

For the year ended December 31, 2010

	2010			2009		
	Specific	General (total)	Total	Specific	General (total)	Total
(Rupees in '000)						
10.4.1 Particulars of provisions against advances						
In local currency	17,674,880	631,496	18,306,376	14,295,536	764,156	15,059,692
In foreign currencies	1,255,691	30,268	1,285,959	1,382,809	30,268	1,413,077
	<u>18,930,571</u>	<u>661,764</u>	<u>19,592,335</u>	<u>15,678,345</u>	<u>794,424</u>	<u>16,472,769</u>

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
10.4.2 The following amounts have been charged to the profit and loss account:			
Specific provision		3,233,254	5,818,069
General provision	10.4.3	4,422	(3,500)
General provision against consumer loans	10.4.5	(137,082)	(39,259)
General provision for potential lease losses (in Srilanka operations)		—	21,217
		<u>3,100,594</u>	<u>5,796,527</u>

10.4.3 General provision against advances represents provision maintained at around 0.1% of gross advances.

10.4.4 State Bank of Pakistan vide BSD Circular No. 2 dated January 27, 2009, BSD Circular No. 10 dated October 20, 2009 and BSD Circular No. 02 of 2010 dated June 03, 2010 has allowed benefit of forced sale value (FSV) of pledged stock and mortgaged residential, commercial & industrial properties (land and building only) held as collateral against NPLs for four years from the date of classification. However, management has not taken the said benefit in calculation of specific provision, other than mortgage and agriculture financing as allowed under Prudential Regulations issued by State Bank of Pakistan.

10.4.5 General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the SBP.

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
10.5 Particulars of write offs:			
10.5.1 Against provisions	10.4	1,918	123,111
Directly charged to the profit and loss account		52,047	41,576
		<u>53,965</u>	<u>164,687</u>
10.5.2 Write offs of Rs. 500,000 and above	10.5.3	7,019	127,420
Write offs of below Rs. 500,000		46,946	37,267
		<u>53,965</u>	<u>164,687</u>

10.5.3 Details of loan write offs of Rs. 500,000 and above

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand Rupees or above allowed to a person(s) during the year ended December 31, 2010 is given at Annexure- III. However, this write off does not affect the Bank's right to recover the debts from these customers.

Notes to the Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
10.6 Particulars of advances to directors, executives, associated companies, etc.			
Debts due by executives or officers of the Bank or any of them either severally or jointly with any other persons			
Balance at beginning of the year		4,432,905	3,844,485
Loans granted during the year		1,438,799	1,090,482
Repayments		(1,163,004)	(502,062)
Balance at end of the year		4,708,700	4,432,905
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of the year		1,141	1,640
Loans granted during the year		111,970	–
Repayments		(563)	(499)
Balance at end of the year		112,548	1,141
		4,821,248	4,434,046
11. OPERATING FIXED ASSETS			
Capital work-in-progress	11.1	2,040,246	1,099,749
Property and equipment	11.2	18,599,703	16,666,905
Intangible asset	11.3	307,591	248,242
		20,947,540	18,014,896
11.1 Capital work-in-progress			
Civil works		1,654,483	871,181
Advances to suppliers and contractors		194,751	80,808
Others		191,012	147,760
		2,040,246	1,099,749

Notes to the Financial Statements

For the year ended December 31, 2010

11.2 Property and equipment

2010											
Description	Cost/ Revalued amount					Accumulated depreciation				Net book value at December 31, 2010	Annual rate of depreciation / estimated useful life
	At January 01, 2010	Additions/ (disposals)	Revaluation surplus	Reversal due to revaluation	At December 31, 2010	At January 01, 2010	Charge for the year / (depreciation on disposals)	Reversal due to revaluation	At December 31, 2010		
	(Rupees in '000)										
Land – Freehold	9,719,130	61,451	600,819	–	10,381,400	–	–	–	–	10,381,400	–
Land – Leasehold	57,430	–	62,670	–	120,100	–	–	–	–	120,100	–
Buildings on freehold land	4,280,772	400,317	877,499	(282,420)	5,276,168	185,792	96,628	(282,420)	–	5,276,168	50 years
Buildings on leasehold land	76,230	76,587	9,166	–	161,983	28,854	39,042	–	67,896	94,087	3 to 50 years
Furniture and fixture	710,955	83,980	–	–	791,340	328,918	61,173	–	387,333	404,007	10% to 33%
		(3,595)					(2,758)				
Electrical, Computers and Office Equipment	5,284,645	678,383	–	–	5,940,358	3,238,577	731,267	–	3,948,985	1,991,373	20% to 33%
		(22,670)					(20,859)				
Vehicles	541,845	88,869	–	–	578,171	248,725	74,320	–	285,102	293,069	20%
		(52,543)					(37,943)				
Ijara Assets											
Assets held under Ijarah – Car	29,947	22,466	–	–	52,413	3,183	9,731	–	12,914	39,499	20%
	20,700,954	1,412,053	1,550,154	(282,420)	23,301,933	4,034,049	1,012,161	(282,420)	4,702,230	18,599,703	
		(78,808)					(61,560)				

Description	2009									
	Cost/ Revalued amount				Accumulated depreciation				Net book value at December 31, 2009	Annual rate of depreciation / estimated useful life
	At January 01, 2009	Additions/ (disposals)	Write off	At December 31, 2009	At January 01, 2009	Charge for the year / (depreciation on disposals)	Write off	At December 31, 2009		
	(Rupees in '000)									
Land – Freehold	9,718,045	1,085	–	9,719,130	–	–	–	–	9,719,130	–
Land – Leasehold	57,430	–	–	57,430	–	–	–	–	57,430	–
Buildings on freehold land	4,210,928	104,184	–	4,280,772	89,504	97,476	–	185,792	4,094,980	50 years
		(34,340)				(1,188)				
Buildings on leasehold land	65,567	10,663	–	76,230	25,062	3,792		28,854	47,376	3 to 50 years
Furniture and fixture	672,327	70,226	(27,266)	710,955	312,254	40,412	(20,522)	328,918	382,037	10% to 33%
		(4,332)				(3,226)				
Electrical, Computers and Office Equipment	4,683,034	800,367	(181,841)	5,284,645	2,736,827	687,941	(171,108)	3,238,577	2,046,068	20% to 33%
		(16,915)				(15,083)				
Vehicles	532,026	77,550	–	541,845	213,401	76,667	–	248,725	293,120	20%
		(67,731)				(41,343)				
Ijara Assets										
Assets held under Ijarah – Car	–	29,947		29,947	–	3,183		3,183	26,764	20%
		–								
	19,939,357	1,094,022	(209,107)	20,700,954	3,377,048	909,471	(191,630)	4,034,049	16,666,905	
		(123,318)				(60,840)				

Notes to the Financial Statements

For the year ended December 31, 2010

11.2.1 The land and buildings of the Bank were revalued in December 2010 by independent valuers (Pee Dee Associates & Arch-e-Decon), valuation and engineering consultants, on the basis of market value. This valuation was incorporated at December 31, 2010. The information relating to location of revalued assets is given in Annexure V. The details of revalued amounts are as follows:

	(Rupees in '000)
Total revalued amount of land	10,501,500
Total revalued amount of buildings	5,329,945

Had the land and buildings not been revalued, the total carrying amounts of revalued properties as at December 31, 2010 would have been as follows:

	(Rupees in '000)
Land	2,504,468
Buildings	3,037,807

11.2.2 The gross carrying amount (cost) of fully depreciated assets that are still in use are as follows:

Furniture and fixture	11,952
Electrical, computers and office equipment	2,044,587
Vehicles	303,812

11.2.3 Details of disposal of operating fixed assets

The information relating to disposal of operating fixed assets required to be disclosed as part of the financial statements by the State Bank of Pakistan is given in Annexure IV and is an integral part of these financial statements.

11.3 Intangible asset

Description	2010							
	Cost			Accumulated amortization			Net book value at December 31, 2010	Annual rate of amortization %
	At January 01, 2010	Additions	At December 31, 2010	At January 01, 2010	Amortization for the year	At December 31, 2010		
	(Rupees in '000)							
Computer software	916,243	219,701	1,135,944	668,001	160,352	828,353	307,591	33.33
	916,243	219,701	1,135,944	668,001	160,352	828,353	307,591	
Description	2009							
	Cost			Accumulated amortization			Net book value at December 31, 2009	Annual rate of amortization %
	At January 01, 2009	Additions	At December 31, 2009	At January 01, 2009	Amortization for the year	At December 31, 2009		
	(Rupees in '000)							
Computer software	705,802	210,441	916,243	514,604	153,397	668,001	248,242	33.33
	705,802	210,441	916,243	514,604	153,397	668,001	248,242	

Notes to the Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
12. OTHER ASSETS – NET			
Income / mark-up accrued on advances and investments – local currency		7,759,916	7,831,605
Income / mark-up accrued on advances and investments – foreign currencies		45,656	50,221
Advances, deposits, advance rent and other prepayments		2,969,294	2,889,208
Advance taxation (payments less provisions)		2,533,770	–
Compensation for delayed income tax refunds		44,802	44,802
Branch adjustment account		153,857	298,112
Non-banking assets acquired in satisfaction of claims	12.1	1,155,832	1,155,832
Unrealised gain on derivative financial instruments	12.2	278,628	194,400
Stationery and stamps on hand		94,053	82,466
Prepaid exchange risk fee		233	319
Receivable from the pension fund	36.3	12,542,560	9,322,304
Others		894,743	1,754,779
		<u>28,473,344</u>	<u>23,624,048</u>
Less: Provision held against other assets	12.3	<u>768,275</u>	<u>583,953</u>
		<u>27,705,069</u>	<u>23,040,095</u>

12.1 The market value of non-banking assets with carrying value of Rs.1,033.222 million (2009: Rs. 1,033.222 million) net of provision as per the valuation report dated December 31, 2010 amounted to Rs. 1,048.473 million (2009: Based on valuation as of December 31, 2009 Rs. 1,068.687 million).

12.2 Unrealised gain on derivative financial instruments

	Notional amount of contracts		Unrealised gain	
	2010	2009	2010	2009
	(Rupees in '000)			
Unrealised gain on:				
Interest rate swaps	–	83,333	–	642
Cross currency swaps	76,563	124,845	51	307
Forward exchange contracts	23,302,853	21,232,947	278,577	193,451
	<u>23,379,416</u>	<u>21,441,125</u>	<u>278,628</u>	<u>194,400</u>

	2010 (Rupees in '000)	2009
12.3 Provision held against other assets		
Opening balance	583,953	456,098
Charge for the year	88,261	142,824
Reversal during the year	–	–
	<u>88,261</u>	<u>142,824</u>
Write off during the year	(111,409)	(14,969)
Adjustment / Transfer	207,470	–
Closing balance	<u>768,275</u>	<u>583,953</u>

13. CONTINGENT ASSETS

There were no contingent assets of the Bank as at December 31, 2010 and December 31, 2009.

Notes to the Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
14. BILLS PAYABLE			
In Pakistan		10,218,142	8,131,031
Outside Pakistan		47,395	70,059
		<u>10,265,537</u>	<u>8,201,090</u>
15. BORROWINGS			
In Pakistan		24,324,510	43,658,408
Outside Pakistan		1,360,083	1,003,680
		<u>25,684,593</u>	<u>44,662,088</u>
15.1 Particulars of borrowings with respect to currencies			
In local currency		24,324,510	43,658,408
In foreign currencies		1,360,083	1,003,680
		<u>25,684,593</u>	<u>44,662,088</u>
15.2 Details of borrowings (secured / unsecured)			
Secured			
Borrowings from State Bank of Pakistan			
Export refinance scheme	15.3 & 15.5	9,880,240	8,829,527
Long term financing facility	15.4 & 15.5	721,000	80,220
Long term financing – export oriented projects scheme	15.4 & 15.5	1,444,542	2,018,330
		<u>12,045,782</u>	<u>10,928,077</u>
Borrowings from other financial institution	15.6	618,163	452,398
Repurchase agreement borrowings	15.7	12,027,499	31,606,331
		<u>24,691,444</u>	<u>42,986,806</u>
Unsecured			
Call borrowings	15.8	449,860	1,146,092
Overdrawn nostro accounts		543,289	529,190
		<u>993,149</u>	<u>1,675,282</u>
		<u>25,684,593</u>	<u>44,662,088</u>
15.3	The Bank has entered into agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreements, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP.		
15.4	The amount is due to SBP and has been obtained for providing long term finance to customers for export oriented projects. As per the agreements with SBP, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP.		
15.5	Borrowings from SBP under the export refinance and long term financing for export oriented projects schemes are secured against the Bank's cash and security balances held by the SBP.		
15.6	These carry mark-up ranging 2% to 3.15% per annum (2009: 5% per annum).		
15.7	These carry mark-up rates ranging between 12.75% to 14% per annum (2009: 12.05% to 12.50% per annum) and are secured against government securities of carrying value of Rs. 11,940.647 million (2009: Rs. 31,513.525 million). These are repayable latest by January, 2011.		
15.8	These carry mark-up at the rate of 8.10% per annum (2009: 12.40% per annum). These are repayable by January, 2011.		

Notes to the Financial Statements

For the year ended December 31, 2010

	2010	2009
	(Rupees in '000)	
16. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	80,073,848	62,651,531
Saving deposits	196,015,213	173,797,078
Current accounts	144,545,488	123,898,324
Margin accounts	3,482,526	2,910,655
Others	—	767
	424,117,075	363,258,355
Financial institutions		
Remunerative deposits	4,128,090	2,258,295
Non-remunerative deposits	3,126,772	2,088,061
	7,254,862	4,346,356
	431,371,937	367,604,711
16.1 Particulars of deposits		
In local currency	404,168,939	336,180,581
In foreign currencies	27,202,998	31,424,130
	431,371,937	367,604,711

16.2 Deposits include deposits from related parties amounting to Rs. 27,889.250 million (2009: Rs. 20,455.944 million).

	Note	2010	2009
		(Rupees in '000)	
17. DEFERRED TAX LIABILITY / (ASSET) – NET			
The details of the tax effect of taxable and deductible temporary differences are as follows:			
Taxable temporary differences on:			
Surplus on revaluation of operating fixed assets	21.1	802,248	503,649
Accelerated tax depreciation		839,989	749,828
Receivable from pension fund		4,389,896	3,262,911
Net investment in finance lease receivable		119,394	301,189
		6,151,527	4,817,577
Deductible temporary differences on:			
Deficit on revaluation of securities	21.2	(15,580)	(90,053)
Provision for bad debts		(821,631)	(1,084,757)
Provision for contributory benevolent scheme		(27,128)	(46,604)
Provision for post retirement medical benefits		(353,170)	(399,420)
		(1,217,509)	(1,620,834)
		4,934,018	3,196,743

17.1 The Finance Act, 2009 and 2010 have made significant amendments in the Seventh Schedule to Income Tax Ordinance, 2001. The deduction for provision for doubtful and loss categories of advances and off balance sheet items is allowable up to a maximum of 1% of total advances whereas provisions for advances and off-balance sheet items for consumers and small and medium enterprises (SMEs) ("as defined under the SBP's Prudential Regulations") is now allowed at 5% of gross consumer and SME portfolio. The amount of bad debts classified as substandard under Prudential Regulations issued by State Bank of Pakistan would not be allowed as an expense.

Notes to the Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
18. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		6,292,926	5,144,560
Mark-up / return / interest payable in foreign currencies		44,443	68,138
Accrued expenses		2,641,056	1,824,390
Unclaimed dividend		606,751	293,582
Staff welfare fund		46,777	56,244
Unrealised loss on derivative financial instruments	18.1	264,411	276,063
Provision for employees' compensated absences	36.3	555,792	541,116
Provision for post retirement medical benefits	36.3	1,374,293	1,370,424
Provision for employees' contributory benevolent scheme	36.3	262,263	246,444
Security deposits received in respect of finance lease		713,392	1,041,833
Taxation (provision less payments)		–	1,096,273
Retention money		32,067	27,161
Insurance payable against consumer assets		196,806	298,504
Others		3,061,342	3,534,350
		16,092,319	15,819,082

18.1 Unrealised loss on derivative financial instruments

	Notional amount of contracts		Unrealised loss	
	2010	2009	2010	2009
	(Rupees in '000)			
Unrealised loss on:				
Interest rate swaps	–	83,333	–	–
Cross currency swaps	76,563	124,845	51	307
Forward exchange contracts	19,097,040	25,636,271	264,360	275,756
	19,173,603	25,844,449	264,411	276,063

19. SHARE CAPITAL

19.1 Authorised Capital

2010 (Number of shares)	2009		2010 (Rupees in '000)	2009
1,000,000,000	1,000,000,000	Ordinary shares of Rs 10 each	10,000,000	10,000,000

19.2 Issued, subscribed and paid-up capital

2010			2009				2010	2009
Issued for cash	Issued as bonus shares	Total	Issued for cash	Issued as bonus shares	Total		(Rupees in '000)	
(Number of shares)								
197,253,795	493,850,732	691,104,527	197,253,795	431,023,048	628,276,843	Opening balance	6,911,045	6,282,768
–	69,110,453	69,110,453	–	62,827,684	62,827,684	Shares issued during the year	691,105	628,277
197,253,795	562,961,185	760,214,980	197,253,795	493,850,732	691,104,527	Closing balance	7,602,150	6,911,045

Notes to the Financial Statements

For the year ended December 31, 2010

	Note	2010 (Number of shares)	2009
19.3	Number of shares held by the associated undertakings as at December 31, are as follows:		
	Adamjee Insurance Company Limited	23,263,378	21,148,526
	Nishat Mills Limited	53,411,266	47,810,242
	D.G. Khan Cement Company Limited	69,856,731	63,506,121
	Din Leather (Private) Limited	4,737,611	4,306,919
	Siddiqsons Limited	34,708,948	31,553,589
	Mayban International Trust (Labuan) Berhad	152,042,995	138,220,905
		<u>338,020,929</u>	<u>306,546,302</u>
20. RESERVES			
	Share premium	9,702,528	9,702,528
	Exchange translation reserve	345,979	256,151
	Statutory reserve	11,514,399	9,827,081
	General reserve	18,600,000	18,600,000
		<u>40,162,906</u>	<u>38,385,760</u>
20.1	Statutory reserve represents amount set aside as per the requirements of section 21 of the Banking Companies Ordinance, 1962.		
	Note	2010 (Rupees in '000)	2009
21. SURPLUS ON REVALUATION OF ASSETS – NET OF TAX			
	Surplus / (deficit) arising on revaluation (net of tax) of:		
	– fixed assets	9,486,923	8,268,894
	– available-for-sale securities	537,275	395,187
		<u>10,024,198</u>	<u>8,664,081</u>
21.1 Surplus on revaluation of fixed assets–net of tax			
	Surplus on revaluation of fixed assets as at January 01	8,772,543	8,809,384
	Surplus during the year	1,550,154	–
	Surplus realised on disposal of revalued properties – net of deferred tax	–	(1,623)
	Related deferred tax liability	–	(874)
		–	(2,497)
	Transferred to unappropriated profit in respect of incremental depreciation charged during the year – net of deferred tax	(21,792)	(22,324)
	Related deferred tax liability	(11,734)	(12,020)
		<u>(33,526)</u>	<u>(34,344)</u>
	Surplus on revaluation of fixed assets as at December 31	<u>10,289,171</u>	<u>8,772,543</u>
	Less: Related deferred tax liability on:		
	Revaluation as at January 01	503,649	516,543
	Surplus during the year	310,333	–
	Disposal of revalued properties during the year transferred to profit and loss account	–	(874)
	Incremental depreciation charged during the year transferred to profit and loss account	(11,734)	(12,020)
		<u>802,248</u>	<u>503,649</u>
		<u>9,486,923</u>	<u>8,268,894</u>

Notes to the Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
21.2 Surplus / (deficit) on revaluation of available-for-sale securities – net of tax			
Federal Government Securities			
– Market Treasury Bills		(330,227)	(307,793)
– Pakistan Investment Bonds		(329,193)	(123,876)
Listed Securities			
– Shares / Certificates / Units		1,089,882	690,169
– Open Ended Mutual Funds		80,603	146,730
– Term Finance Certificates		15,903	(96,233)
		1,186,388	740,666
Sukuk Bonds		(5,273)	(3,863)
		521,695	305,134
Add: Related deferred tax asset	17	15,580	90,053
		537,275	395,187
22. CONTINGENCIES AND COMMITMENTS			
22.1 Transaction-related contingent liabilities			
Guarantees in favour of:			
Government		4,533,255	6,027,243
Banks and financial institutions		1,455,621	11,312,597
Others		7,794,659	4,755,380
Suppliers' credit / payee guarantee		2,326,818	2,421,640
		16,110,353	24,516,860
22.2 Trade-related contingent liabilities		76,856,249	47,577,037
22.3 Other contingencies			
Claims against the Bank not acknowledged as debts		674,032	542,415
22.4 Commitments to extend credit			
The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.			
	Note	2010 (Rupees in '000)	2009
22.5 Commitments in respect of forward foreign exchange contracts			
Purchase		20,154,200	23,832,214
Sale		22,245,693	23,037,004
22.6 Commitments for the acquisition of fixed assets		51,944	–
22.7 Other commitments			
Cross currency swaps (notional amount)	23.1 & 23.2	153,126	249,690
Interest rate swaps – (notional amount)		–	166,667

Notes to the Financial Statements

For the year ended December 31, 2010

22.8 Taxation

The income tax assessments of the Bank have been finalised upto and including the Tax Year 2010. For the Tax Years 2003 to 2009, the department has amended the assessments on certain issues against which the Bank has filed appeals. In respect of the Tax Year 2003 to 2006, the Commissioner of Income Tax (Appeals) vide his orders has decided the matter in favour of the Bank against which the department has filed appeal before the Income Tax Appellate Tribunal (ITAT). The management and the Bank's legal counsel are of the view that the issues will be decided in the Bank's favour as and when these are taken up by the appellate authorities. For Tax Year 2009, the department has amended the assessment on similar issues resulting in additional tax liability of Rs. 982.054 million against which the legal / appellate course from the Bank has reached ITAT level.

Total disallowances for the assessment years 1994–95 to 1997–98 on account of interest in suspense amounted to Rs. 722.682 million out of which an amount of Rs. 317.289 million has been allowed in the assessment years 1998–1999 to 2000–2001. It is expected that the pending appeals in this regard in the Honourable Sindh High Court shall be decided in favour of the Bank as allowed in assessment years 1992–1993 and 1993–1994. Subsequent to the favourable order of the Honourable Sindh High Court, the management considers that provision is not necessary for the remaining balance of Rs.405.393 million resulting in tax liability for interest in suspense for Rs. 244.781 million as the Bank has been subjected to tax far exceeding its normal tax liability and is hopeful of favourable decisions in appeals. Accordingly, no provision has been made in these financial statements for the above amount.

23. DERIVATIVE INSTRUMENTS

Most corporate (counter parties) have either interest rate exposures arising from debt financing or excess liquidity or currency exposures arising out of commercial and business transactions. In the event of a shift in interest or foreign exchange (FX) rates, these corporate may incur higher borrowing costs or higher cash outflows that will adversely affect profitability.

The Bank is providing solutions to this conundrum through derivatives. Through this, counterparties will be hedging exposure to adverse price movements in a security, typically when the counterparty has a concentrated position in the security and is acutely exposed to movements in the underlying risk factors. The Bank is in a better position to hedge that risk, and is thus able to provide cost efficient hedging solutions to the counterparties enabling them to concentrate on their business risk.

Other Objectives include:

- contribution to the development of Pakistani financial markets.
- provision of financial solutions to the counterparties.

In light of the above the Bank is actively marketing interest rate risk and FX risk management tools, including:

- Interest Rate Swaps
- Third Currency FX options
- Currency Swaps.

Risk management is performed at:

- a) Strategic level: By senior management Assets and Liabilities Management Committee (ALCO), Risk Management Committee (RMC) and the Board of Directors to institute a risk management framework and to ensure provision of all resources and support required for effective risk management on Bank-wide basis.
- b) Macro Level: By Financial Institution Public Sector (FIPS) & Market Risk Management (MRM) Division, responsible for policy formulation, procedure development & implementation, monitoring and reporting.
- c) Micro Level: Treasury Derivatives & Structured Product Desk and Treasury Operations, where risks are actually created.

FIPS & MRM Division is responsible for coordinating for risk management of derivatives.

The risk management system generates marked to market risk numbers (i.e. VaR PVP, duration, etc.) of Interest rate derivative portfolio. These numbers are reported to senior management on a daily basis.

As per the State Bank of Pakistan's (SBP) regulations, currency options are hedged back to back and thus the risks associated with such transactions are minimal.

Risk Limits

Before initiating any new derivative transaction, Treasury Division requests the FIPS & MRM Division for risk limits. Limit requests are approved by the appropriate level of authority. Presently the Bank has notional limits (both for the portfolio and the counterparty).

Notes to the Financial Statements

For the year ended December 31, 2010

23.1 Product analysis

Counter parties	2010					
	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)
With Banks for						
Hedging	2	76,563	—	—	—	—
Market Making	—	—	—	—	—	—
With other entities for						
Hedging	—	—	—	—	—	—
Market Making	2	76,563	—	—	—	—
Total						
Hedging	2	76,563	—	—	—	—
Market Making	2	76,563	—	—	—	—
2009						
Counter parties	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)
	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)
With Banks for						
Hedging	2	124,845	1	83,333	—	—
Market Making	—	—	—	—	—	—
With other entities for						
Hedging	—	—	—	—	—	—
Market Making	2	124,845	1	83,333	—	—
Total						
Hedging	2	124,845	1	83,333	—	—
Market Making	2	124,845	1	83,333	—	—

23.2 Maturity analysis

Remaining Maturity	No. of Contracts	Notional Principal	2010		
			Mark to Market		Net
			Negative	Positive	
(Rupees in '000)					
Cross currency swaps					
1 to 2 Years	4	153,126	(51)	51	–
2009					
Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		Net
			Negative	Positive	
			(Rupees in '000)		
Cross currency swaps					
1 to 2 Years	4	249,690	(307)	307	–
2010					
Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		Net
			Negative	Positive	
			(Rupees in '000)		
Interest rate swaps					
6 month to 1 year	–	–	–	–	–
2009					
Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		Net
			Negative	Positive	
			(Rupees in '000)		
Interest rate swaps					
6 month to 1 year	2	166,666	–	642	642

Notes to the Financial Statements

For the year ended December 31, 2010

	2010 (Rupees in '000)	2009
24. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to:		
Customers	32,598,604	36,212,097
On investments in:		
Held for trading securities	–	10,842
Available for sale securities	19,009,859	12,052,173
Held to maturity securities	1,310,394	1,831,147
	20,320,253	13,894,162
On deposits with financial institutions	16,105	133,069
On securities purchased under resale agreements	1,563,520	838,415
On money at call	105,031	335,911
Others	217,783	202,353
	54,821,296	51,616,007
25. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	15,805,828	13,866,799
Securities sold under repurchase agreements	622,999	722,711
Other short-term borrowings	901,916	775,126
Discount, commission and brokerage	553,809	448,742
Others	103,215	23,944
	17,987,767	15,837,322
26. GAIN ON SALE OF SECURITIES – NET		
Federal Government Securities		
– Market Treasury Bills	965	11,011
– Pakistan Investment Bonds	30,880	77,981
– Sukuk Bonds	1,800	–
Shares		
– Listed	378,189	643,417
– Unlisted	–	18,630
Term Finance Certificates	–	22,729
	411,834	773,768
27. OTHER INCOME		
Rent on property / lockers	84,396	87,397
Net profit on sale of property and equipment	15,993	30,614
Bad debts recovered	58,981	90,310
Others	388,310	403,705
	547,680	612,026

Notes to the Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
28. ADMINISTRATIVE EXPENSES			
Salaries and allowances		7,218,085	6,471,114
Charge / (reversal) for defined benefit plans and other benefits:			
– Approved pension fund	36.7	(3,220,256)	(3,923,285)
– Post retirement medical benefits	36.7	136,014	130,488
– Employees' contributory benevolent scheme	36.7	71,464	64,906
– Employees' compensated absences	36.7	190,821	150,779
		(2,821,957)	(3,577,112)
Contributions to defined contribution plan – provident fund		158,724	148,734
Non-executive directors' fees		31,956	10,220
Rent, taxes, insurance, electricity		1,569,381	1,356,486
Legal and professional charges		221,954	240,410
Communications		841,915	995,448
Repairs and maintenance		681,026	533,935
Stationery and printing		362,691	330,415
Advertisement and publicity		232,432	215,079
Cash transportation charges		403,427	515,903
Instrument clearing charges		165,519	137,109
Donations	28.1	15,000	25,000
Auditors' remuneration	28.2	15,000	14,963
Depreciation	11.2	1,012,161	909,471
Amortization of intangible asset	11.3	160,352	153,397
Travelling, conveyance and fuel		683,651	588,793
Subscription		25,776	14,333
Entertainment		68,851	74,073
Training expenses		57,798	46,979
Petty capital items		63,924	49,034
Credit card related expenses		129,184	58,264
Others		877,092	799,282
		12,173,942	10,111,330

28.1 None of the directors, executives or their spouses had any interest in the donee. Detail of donations made during the year is as follows:

	2010 (Rupees in '000)	2009
Mosque of Armed forces Institute of Cardiology and National Institute of Heart Diseases, Rawalpindi	500	–
Chief Minister's Flood Relief and Rehabilitation Account for relief of flood victims	10,000	–
CAS flood relief fund for flood victims	2,500	–
Aitmaad Pakistan Trust for relief to the flood calamity masses of Pakistan	2,000	–
Mir Khalil ur Rehman Foundation (MKRF) for internally displaced persons (IDPs)	–	25,000
	15,000	25,000

Notes to the Financial Statements

For the year ended December 31, 2010

	2010	2009
	(Rupees in '000)	
28.2 Auditors' remuneration		
Annual Audit fee	2,716	2,587
Fee for the audit of branches	3,604	3,432
Fee for audit and other certifications of overseas branches	4,593	4,500
Fee for half year review	1,210	1,152
Special certifications, etc.	1,920	2,381
Out-of-pocket expenses	957	911
	15,000	14,963
29. OTHER CHARGES		
Fixed assets written off	—	17,477
Penalties of State Bank of Pakistan	366,251	30,000
Workers welfare fund	525,062	463,099
VAT Sri Lanka	89,216	103,707
Others	5,911	75,867
	986,440	690,150
30. TAXATION		
For the year		
Current	8,027,433	7,703,305
Deferred	1,352,467	298,807
	9,379,900	8,002,112
Prior years		
Current	—	(2,232,226)
Deferred	—	1,889,762
	—	(342,464)
	9,379,900	7,659,648
30.1 Relationship between tax expense and accounting profit		
Accounting profit for the year	26,253,075	23,154,945
Tax rate	35%	35%
Tax on income	9,188,576	8,104,231
Tax effect on separate block of income (taxable at reduced rate)	(135,977)	(114,935)
Tax effect of permanent differences	339,035	24,836
Tax effect of prior years provisions / (reversals)	—	(342,464)
Reversal of deferred tax liability on incremental depreciation	(11,734)	(12,020)
Tax charge for the year	9,379,900	7,659,648

31. CREDIT RATING

PACRA through its notification in June 2010, has maintained long term credit rating of AA+ [double A plus] and short-term credit rating of A1+ [A one plus] to the Bank (2009: AA+ [Double A plus] for long term and A1+ [A one plus] for short term rating).

Notes to the Financial Statements

For the year ended December 31, 2010

		2010 (Rupees in '000)	2009
32. BASIC AND DILUTED EARNINGS PER SHARE PRE TAX			
Profit before taxation		26,253,075	23,154,945
		(Number of Shares)	
Weighted average number of shares outstanding during the year		760,214,980	760,214,980
		(Rupees)	
Basic and diluted earnings per share – pre tax		34.53	30.46
		2010 (Rupees in '000)	2009
33. BASIC AND DILUTED EARNINGS PER SHARE AFTER TAX			
Profit after taxation		16,873,175	15,495,297
		(Number of Shares)	
Weighted average number of shares outstanding during the year		760,214,980	760,214,980
		(Rupees)	
Basic and diluted earnings per share – after tax		22.20	20.38

* Weighted average number of shares outstanding for 2009 have been restated to give effect of bonus shares issued during the year.

	Note	2010 (Rupees in '000)	2009
34. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	45,407,183	38,774,871
Balances with other banks	7	1,478,569	6,009,993
		46,885,752	44,784,864
		2010 (Number)	2009
35. STAFF STRENGTH			
Permanent		9,583	9,397
Temporary/on contractual basis		57	48
Bank's own staff strength at the end of the year		9,640	9,445
Outsourced		3,740	3,747
Total staff strength		13,380	13,192

36. DEFINED BENEFIT PLANS AND OTHER BENEFITS

36.1 General description

The Bank operates the following retirement benefits for its employees:

- Pension fund (final salary plan) – funded
- Benevolent scheme – unfunded
- Post retirement medical benefits – unfunded
- Employees compensated absence – unfunded

Notes to the Financial Statements

For the year ended December 31, 2010

36.2 Principal actuarial assumptions

The latest actuarial valuations of the approved pension fund, employees' contributory benevolent scheme, post retirement medical benefits and employee's compensated absences were carried out at December 31, 2010. The principal actuarial assumptions used are as follows:

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2010	2009	2010	2009	2010	2009	2010	2009
	(%)							
Valuation discount rate	13	14	13	14	13	14	13	14
Expected rate of return on plan assets	13	14	–	–	–	–	–	–
Salary increase rate	10	10	10	10	10	10	10	10
Medical cost inflation rate	–	–	–	–	7	8	–	–
Exposure inflation rate	–	–	–	–	3	3	–	–

The expected return on plan assets is based on the market expectations and depends on the asset portfolio of the Bank, at the beginning of the period, for returns over the entire life of the related obligation.

36.3 (Receivable from) / payable to defined benefit plans and other benefits

	Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
		2010	2009	2010	2009	2010	2009	2010	2009
		(Rupees in '000)							
Present value of defined benefit obligations	36.5	4,217,507	4,072,653	314,414	299,388	1,320,933	1,287,348	555,792	541,116
Fair value of plan assets	36.6	(19,303,801)	(18,254,967)	–	–	–	–	–	–
Net actuarial gains / (losses) not recognised		2,543,734	4,860,010	(52,151)	(52,944)	53,360	49,369	–	–
Unrecognised negative past service cost		–	–	–	–	–	33,707	–	–
Unrecognised past service cost		–	–	–	–	–	–	–	–
Net (receivable) / payable recognised as at the year – end		(12,542,560)	(9,322,304)	262,263	246,444	1,374,293	1,370,424	555,792	541,116

The effect of increase of one percent and the effect of a decrease of one percent in the medical trend rates on the present value of medical obligation at December 31, 2010 would be Rs.82.189 million (2009: Rs. 76.348 million) and Rs. 68.517 million (2009: Rs. 62.472 million) respectively.

36.4 Movement in balance (receivable) / payable

	Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
		2010	2009	2010	2009	2010	2009	2010	2009
		(Rupees in '000)							
Opening balance of (receivable) / payable		(9,322,304)	(5,399,019)	246,444	274,446	1,370,424	1,400,413	541,116	752,947
Expense recognised	36.7	(3,220,256)	(3,923,285)	71,464	64,906	136,014	130,488	190,821	150,779
– Employees' contribution		–	–	10,972	12,338	–	–	–	–
Benefits paid		–	–	(66,617)	(105,246)	(132,145)	(160,477)	(176,145)	(362,610)
Closing balance of (receivable) / payable		(12,542,560)	(9,322,304)	262,263	246,444	1,374,293	1,370,424	555,792	541,116

Notes to the Financial Statements

For the year ended December 31, 2010

36.5 Reconciliation of the present value of the defined benefit obligations

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2010	2009	2010	2009	2010	2009	2010	2009
(Rupees in '000)								
Present value of obligation as at January 01,	4,072,653	4,295,986	299,388	300,162	1,287,348	1,269,622	541,116	752,947
Current service cost	37,135	22,223	14,447	11,751	16,172	15,253	33,927	47,209
Interest cost	570,171	558,478	41,914	39,021	180,229	165,051	75,756	97,883
Benefits paid	(654,204)	(1,172,751)	(66,617)	(105,246)	(132,145)	(160,477)	(176,145)	(362,610)
Actuarial (gains) / losses	191,752	368,717	25,282	53,700	(30,671)	(2,101)	81,138	5,687
Present value of obligation as at December 31,	4,217,507	4,072,653	314,414	299,388	1,320,933	1,287,348	555,792	541,116

36.6 Changes in fair values of plan assets

		Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
Note		2010	2009	2010	2009	2010	2009	2010	2009
(Rupees in '000)									
Net assets as at January 01,		18,254,967	15,953,712	—	—	—	—	—	—
Expected return on plan assets		2,555,695	2,073,983	—	—	—	—	—	—
Benefits paid		(654,204)	(1,172,751)	—	—	—	—	—	—
Actuarial gain / (loss)		(852,657)	1,400,023	—	—	—	—	—	—
Net assets as at December 31,	36.9	19,303,801	18,254,967	—	—	—	—	—	—

36.7 Charge for defined benefit plans and other benefits

The following amounts have been charged to the profit and loss account in respect of defined benefit plans and other benefits:

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2010	2009	2010	2009	2010	2009	2010	2009
(Rupees in '000)								
Current service cost	37,135	22,223	14,447	11,751	16,172	15,253	33,927	47,209
Interest cost	570,171	558,478	41,914	39,021	180,229	165,051	75,756	97,883
Expected return on plan assets	(2,555,695)	(2,073,983)	—	—	—	—	—	—
Net actuarial (gain) / loss recognised	(1,271,867)	(2,430,003)	26,075	26,472	(26,680)	(24,685)	81,138	5,687
Contributions employees	—	—	(10,972)	(12,338)	—	—	—	—
Recognised past service cost	—	—	—	—	—	8,577	—	—
Recognised negative past service cost	—	—	—	—	(33,707)	(33,708)	—	—
	(3,220,256)	(3,923,285)	71,464	64,906	136,014	130,488	190,821	150,779

The effect of increase of one percent and the effect of a decrease of one percent in the medical trend rates on the aggregate of the current service cost and interest cost components of net period post – employment medical costs would be Rs. 11.502 million (2009: Rs. 12.139 million) and Rs.9.550 million (2009: Rs. 9.871 million) respectively.

36.8 Actual return on plan assets

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2010	2009	2010	2009	2010	2009	2010	2009
(Rupees in '000)								
Actual return on plan assets	1,703,038	3,474,006	—	—	—	—	—	—

Notes to the Financial Statements

For the year ended December 31, 2010

36.9 Composition of fair value of plan assets

	Approved Pension Fund			
	2010		2009	
	Fair Value (Rupees in '000)	Percentage (%)	Fair Value (Rupees in '000)	Percentage (%)
Term deposit receipts	14,855,349	76.96	12,933,809	70.85
Listed equity shares	3,380,334	17.51	3,255,079	17.83
Open ended mutual funds units	222,605	1.15	127,412	0.70
Term Finance certificates	197,652	1.02	–	–
Cash and bank balances	647,861	3.36	1,938,667	10.62
Fair value of plan total assets	19,303,801	100	18,254,967	100
36.9.1 Fair value of the Bank's financial instruments included in plan assets:				
Shares of MCB	2,667,543		2,331,026	
TDRs of MCB	14,855,349		12,933,809	
Bank balance with MCB	634,567		1,926,220	
	18,157,459		17,191,055	

36.10 Other relevant details of above funds are as follows:

	2010	2009	2008	2007	2006
	(Rupees in '000)				
36.10.1 Pension Fund					
Present value of defined benefit obligation	4,217,507	4,072,653	4,295,986	4,747,389	4,752,693
Fair value of plan assets	(19,303,801)	(18,254,967)	(15,953,712)	(25,095,113)	(14,810,557)
(Surplus) / deficit	(15,086,294)	(14,182,314)	(11,657,726)	(20,347,724)	(10,057,864)
Actuarial gain / (loss) on obligation					
Experience adjustment	(191,752)	(368,717)	167,695	(325,849)	54,320
Assumptions gain / (loss)	–	–	–	–	–
	(191,752)	(368,717)	167,695	(325,849)	54,320
Actuarial gain / (loss) on assets					
Experience adjustment	(852,657)	1,400,023	(476,313)	9,694,483	4,634,045
Assumptions gain / (loss)	–	–	–	–	–
	(852,657)	1,400,023	(476,313)	9,694,483	4,634,045
36.10.2 Employees' Contributory Benevolent Scheme					
Present value of defined benefit obligation	314,414	299,388	300,162	355,340	332,677
Fair value of plan assets	–	–	–	–	(20,650)
	314,414	299,388	300,162	355,340	312,027
Actuarial gain / (loss) on obligation					
Experience adjustment	(25,282)	(53,700)	–	(60,968)	10,182
Assumptions gain / (loss)	–	–	–	–	–
	(25,282)	(53,700)	–	(60,968)	10,182
Actuarial gain / (loss) on assets					
Experience adjustment	–	–	–	(1,529)	(34)
Assumptions gain / (loss)	–	–	–	–	–
	–	–	–	(1,529)	(34)

Notes to the Financial Statements

For the year ended December 31, 2010

	2010	2009	2008	2007	2006
	(Rupees in '000)				
36.10.3 Post Retirement Medical Benefits					
Present value of defined benefit obligation	1,320,933	1,287,348	1,269,622	1,422,918	1,345,357
Fair value of plan assets	–	–	–	–	–
	1,320,933	1,287,348	1,269,622	1,422,918	1,345,357
Actuarial gain / (loss) on obligation					
Experience adjustment	30,671	2,101	159,682	(40,893)	36,153
Assumptions gain / (loss)	–	–	–	–	(21,846)
	30,671	2,101	159,682	(40,893)	14,307
36.10.4 Compensated absences					
Present value of defined benefit obligation	555,792	541,116	752,947	974,464	1,023,683
Fair value of plan assets	–	–	–	–	–
	555,792	541,116	752,947	974,464	1,023,683
Actuarial gain / (loss) on obligation	(81,138)	(5,687)	–	–	–

36.11. No contribution to the pension fund is expected in the next future year.

37. DEFINED CONTRIBUTION PLAN

The Bank operates an approved contributory provident fund for 6,616 (2009: 6,663) employees where contributions are made by the Bank and employees at 8.33% per annum (2009: 8.33% per annum) of the basic salary. During the year, the Bank contributed Rs.158.724 million (2009: Rs. 148.734 million) in respect of this fund.

The Bank also operates an approved non-contributory provident fund for 2,114 (2009: 2,223) employees who have opted for the new scheme, where contributions are made by the employees at 12% per annum (2009: 12% per annum) of the basic salary.

38. COMPENSATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for compensation, including all benefits, to the Chairman, Chief Executive, Directors and Executives of the Bank was as follows:

	President / Chief Executive		Directors		Executives	
	2010	2009	2010	2009	2010	2009
	(Rupees in '000)					
Fees	–	–	31,956	10,220	–	–
Managerial remuneration	22,597	38,830	–	1,524	824,826	628,210
Bonus and others	20,654	8,000	–	–	350,461	227,216
Retirement benefits	1,866	1,759	–	–	685,954	383,096
Rent and house maintenance	10,078	9,502	–	–	306,795	228,536
Utilities	2,239	2,111	–	–	65,710	49,854
Medical	–	–	–	–	17,153	14,641
Conveyance	–	417	–	–	309,515	226,273
38.1	57,434	60,619	31,956	11,744	2,560,414	1,757,826
Number of persons	2	1	12	12	698	586

38.1. This includes salary of current president and ex-president.

The Chairman has been provided with free use of Bank's maintained car. The Chief Executive and certain executives are also provided with free use of the Bank's maintained cars and household equipments in accordance with the terms of their employment.

Notes to the Financial Statements

For the year ended December 31, 2010

39. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Bank as 'held to maturity'. Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.3 to these financial statements.

The maturity and repricing profile and effective rates are stated in notes 43.3, 43.4.1 and 43.4.2 respectively.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently repriced.

40. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activity is as follows:

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Total
	(Rupees in '000)				
2010					
Total income	105,897	22,832,746	12,907,394	25,240,565	61,086,602
Total expenses	(22,504)	(2,346,148)	(28,634,106)	(3,830,769)	(34,833,527)
Income tax expense	–	–	–	–	(9,379,900)
Net income	83,393	20,486,598	(15,726,712)	21,409,796	16,873,175
Segment assets – (Gross of NPL's provision)	–	244,173,082	122,032,226	217,744,106	583,949,414
Advance taxation (payment less provision)	–	–	–	–	2,533,770
Total assets	–	244,173,082	122,032,226	217,744,106	586,483,184
Segment non performing loans	–	–	7,892,471	16,651,336	24,543,807
Segment specific provision required	–	–	6,087,441	12,843,130	18,930,571
Segment liabilities	–	20,269,951	437,756,727	25,387,708	483,414,386
Deferred tax liability	–	–	–	–	4,934,018
Total liabilities – net	–	20,269,951	437,756,727	25,387,708	488,348,404
Segment return on net assets (ROA) (%)	–	9.35%	11.13%	12.32%	–
Segment cost of fund (%)	–	10.99%	4.00%	4.96%	–

Notes to the Financial Statements

For the year ended December 31, 2010

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Total
	(Rupees in '000)				
2009					
Total income	81,457	16,399,642	15,442,747	25,335,046	57,258,892
Total expenses	(17,300)	(3,161,956)	(27,806,309)	(3,118,382)	(34,103,947)
Income tax expense	–	–	–	–	(7,659,648)
Net income	64,157	13,237,686	(12,363,562)	22,216,664	15,495,297
Segment assets – (Gross of NPL's provision)	–	188,753,204	119,559,979	216,588,889	524,902,072
Total assets	–	188,753,204	119,559,979	216,588,889	524,902,072
Segment non performing loans	–	–	7,546,222	15,692,501	23,238,723
Segment specific provision required	–	–	5,091,169	10,587,176	15,678,345
Segment liabilities	–	26,575,242	383,952,758	24,662,698	435,190,698
Provision for taxation	–	–	–	–	1,096,273
Deferred tax liability	–	–	–	–	3,196,743
Total liabilities – net	–	26,575,242	383,952,758	24,662,698	439,483,714
Segment return on net assets (ROA) (%)	–	8.69%	13.49%	12.30%	–
Segment cost of fund (%)	–	11.57%	3.99%	4.67%	–

41. RELATED PARTY TRANSACTIONS AND BALANCES

The Bank has related party relationship with its associated undertakings, subsidiary companies, employee benefit plans and its key management personnel (including their associates) and companies with common directors. The detail of investment in subsidiary companies and associated undertakings are stated in Annexure I (note 5 & 6) to these financial statements.

Transactions between the Bank and its related parties are carried at arm's length basis under the comparable uncontrolled price and cost plus method. Details of loans and advances to the companies or firms in which the directors of the Bank are interested as directors, partners or in case of private companies as members, are given in note 10.6 to these financial statements. There are no transactions with key management personnel other than under their terms of employment. Contributions to and accruals in respect of staff retirement and other benefit plans are made in accordance with the actuarial valuation / terms of the contribution plan as disclosed in notes 36 and 37. Remuneration to executives is disclosed in note 38 to these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2010

	Directors		Associated companies		Subsidiary companies		Other related parties	
	2010	2009	2010	2009	2010	2009	2010	2009
(Rupees in '000)								
A. Balances								
Deposits								
Deposits at beginning of the year	1,394,294	426,196	789,205	865,239	40,644	30,068	18,231,801	11,028,883
Deposits received during the year	51,883,458	20,156,909	108,743,238	139,291,264	827,231	551,295	224,429,580	223,951,868
Deposits repaid during the year	(51,182,696)	(19,188,811)	(108,577,429)	(139,367,298)	(790,832)	(540,719)	(217,899,244)	(216,748,950)
Deposits at end of the year	2,095,056	1,394,294	955,014	789,205	77,043	40,644	24,762,137	18,231,801
Mark-up expense on deposits	227,084	33,359	74,666	45,945	1,292	692	2,136,360	1,362,792
Advances (secured)								
Balance at beginning of the year	–	–	–	–	1,141	1,640	–	–
Loans granted during the year	–	–	–	–	111,970	–	–	–
Repayments received during the year	–	–	–	–	(563)	(499)	–	–
Balance at end of the year	–	–	–	–	112,548	1,141	–	–
Markup income of advances	–	–	–	–	304	–	–	–
Receivable from Pension fund	–	–	–	–	–	–	12,542,560	9,322,304

B. Other transactions (including profit and loss related transactions)

	Directors		Associated companies		Subsidiary companies		Other related parties	
	2010	2009	2010	2009	2010	2009	2010	2009
(Rupees in '000)								
Associates								
Adamjee Insurance Company Limited								
– Insurance premium paid – net of refund	–	–	285,131	243,658	–	–	–	–
– Insurance claim settled	–	–	166,315	150,520	–	–	–	–
– Rent income received	–	–	6,954	8,942	–	–	–	–
– Dividend received	–	–	85,171	78,917	–	–	–	–
– Outstanding commitments and contingent liabilities	–	–	4,842	4,451	–	–	–	–
– Purchase of Vehicle	–	–	26,000	–	–	–	–	–
Mayban International Trust (Labuan) Berhad								
– Dividend paid	–	–	–	–	–	–	1,776,139	1,350,795
– Bonus shares issued	–	–	–	–	–	–	138,221	125,655
– Forward foreign exchange contracts (Notional)	–	–	–	–	–	–	–	3,408,431
– Unrealized loss on forward foreign exchange contracts	–	–	–	–	–	–	–	36,213
Subsidiary Companies								
MNET Services (Private) Limited								
– Outsourcing service charges	–	–	–	–	79,697	75,124	–	–
– Networking service charges	–	–	–	–	15,276	13,389	–	–
– Switch revenue	–	–	–	–	124	401	–	–
– Payments system managed service revenue	–	–	–	–	26,721	28,192	–	–
– Other expenses paid by MCB	–	–	–	–	23,414	14,876	–	–
– Trade debts	–	–	–	–	24,544	35,501	–	–
– Receivable for other expenses	–	–	–	–	13,578	12,615	–	–

Notes to the Financial Statements

For the year ended December 31, 2010

	Directors		Associated companies		Subsidiary companies		Other related parties	
	2010	2009	2010	2009	2010	2009	2010	2009
	(Rupees in '000)							
MCB Asset Management Company Limited								
– Dividend received	–	–	–	–	–	29,998	–	–
– Markup paid	–	–	–	–	666	692	–	–
– Proceeds from sale of property	–	–	–	–	–	34,340	–	–
– Gain on sale of property	–	–	–	–	–	1,188	–	–
– Markup payable	–	–	–	–	185	51	–	–
– Sale commission payable	–	–	–	–	824	1,033	–	–
– Others	–	–	–	–	4,073	1,001	–	–
MCB Trade Services Limited								
– Dividend received	–	–	–	–	9,929	11,315	–	–
“MCB Leasing” Closed Joint Stock Company								
– Capital injection	–	–	–	–	84,138	394	–	–
Other related parties								
MCB Employees Security System and Services (Private) Limited								
– Security guard expenses	–	–	–	–	–	–	168,823	146,508
MCB Employees Foundation								
– Stationery expenses	–	–	–	–	–	–	121,791	111,100
– Service expenses	–	–	–	–	–	–	17,287	16,750
– Cash sorting expenses	–	–	–	–	–	–	28,027	21,597
– Advance receivable	–	–	–	–	–	–	20,000	20,000
– Cash in transit expenses	–	–	–	–	–	–	220	801
– Payable for stationery expenses	–	–	–	–	–	–	394	–
– Proceeds from sale of fixed assets	–	–	–	–	–	–	178	–
– Gain on sale of fixed assets	–	–	–	–	–	–	56	–
Others								
Dividend income	–	–	–	–	–	–	143,136	28,694
Advisory fee received	–	–	3,428	–	–	–	13,696	–
Proceeds from sale of vehicles to key management personnel	–	–	–	–	–	–	6,003	–
Gain on sale of vehicles to key management personnel	–	–	–	–	–	–	–	–
Remuneration of key management personnel (other than directors)	–	–	–	–	–	–	229,195	219,228
Contribution to provident fund	–	–	–	–	–	–	158,724	148,734
Other miscellaneous expenses	–	–	–	–	–	–	112,613	125,140

The details of director's compensations are given in note 38 to these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2010

42. CAPITAL ASSESSMENT AND ADEQUACY

42.1 Scope of Applications

The Basel II Framework is applicable to the bank both at the consolidated level (comprising of wholly/partially owned subsidiaries & associates undertaking) and also on a stand alone basis. Subsidiaries are included while calculating Consolidated Capital Adequacy for the Bank using full consolidation method whereas associates in which the bank has significant influence on equity method. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes.

42.2 Capital Management

Objectives and goals of managing capital

The objectives and goals of managing capital of the Bank are as follows:

- to be an appropriately capitalized institution, as defined by regulatory authorities and comparable to the peers;
- maintain strong ratings and to protect the Bank against unexpected events;
- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- achieve low overall cost of capital with appropriate mix of capital elements.

Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No.07 of 2009 dated April 15, 2009 requires the minimum paid up capital (net of losses) for all locally incorporated banks to be raised to Rs. 10 billion by the year ending on December 31, 2013. The raise is to be achieved in a phased manner requiring Rs. 7 billion paid up capital (net of losses) by the end of the financial year 2010. The paid up capital of the Bank for the year ended December 31, 2010 stands at Rs. 7.6 billion and is in compliance with the SBP requirement for the said year. In addition the banks are also required to maintain a minimum capital adequacy ratio (CAR) of 10 % of the risk weighted exposure. The Bank's CAR as at December 31, 2010 is 22.07 % of its risk weighted exposure.

Bank's regulatory capital is analysed into two tiers.

- Tier 1 capital, which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves as per the financial statements and net unappropriated profits, etc after deductions for deficit on revaluation of available for sale investments and 50% deduction for investments in the equity of subsidiary companies and significant minority investments in entities engaged in banking and financial activities and reciprocal investments advised by BSD circular letter No.6 of 2010 by SBP.
- Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25 % of risk weighted assets), reserves on revaluation of fixed assets and equity investments up to a maximum of 45 % the balance, foreign exchange translation reserves, etc after 50% deduction for investments in the equity of subsidiary companies and significant minority investments in entities engaged in banking and financial activities.

Tier 3 capital has also been prescribed by the State Bank of Pakistan. However, the bank currently does not have any Tier III capital.

The Capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 30 dated November 25, 2008 and BSD Circular No.07 of 2009 dated April 15, 2009 . The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank.

Notes to the Financial Statements

For the year ended December 31, 2010

The required capital adequacy ratio (10% of the risk-weighted assets) is achieved by the Bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk, market risk and operational risk.

The calculation of capital adequacy enables the Bank to assess the long-term soundness. As the bank carry on the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across entire organization and aggregate the risks so as to take an integrated approach/view. Maximization of the return on risk-adjusted capital is the principal basis to be used in determining how capital is allocated within the Bank to particular operations or activities.

The Bank has complied with all externally imposed capital requirements through out the year. Further, there has been no material change in the Bank's management of capital during the year.

	Note	2010 (Rupees in '000)	2009
42.3 Capital Structure			
Tier 1 Capital			
Shareholders equity /assigned capital		7,602,150	6,911,045
Share premium		9,702,528	9,702,528
Reserves		30,114,399	28,427,081
Unappropriated profits		21,414,955	15,779,127
		68,834,032	60,819,781
Deductions:			
Book value of intangible		407,346	248,242
Other deductions	42.3.1	725,412	675,256
		1,132,758	923,498
Total Tier 1 capital		67,701,274	59,896,283
Tier 2 Capital			
General provisions subject to 1.25% of total risk weighted assets		661,764	794,424
Revaluation reserves up to 45%		4,864,890	4,084,955
Foreign exchange translation reserves		345,979	256,151
		5,872,633	5,135,530
Deductions:			
Other deductions	42.3.1	717,547	675,256
Total Tier 2 Capital		5,155,086	4,460,274
Total Regulatory Capital Base	A	72,856,360	64,356,557

42.3.1 Other deduction includes investments in equity of financial subsidiaries not consolidated in the statement of financial position and significant minority investments in banking, securities and other financial entities.

Notes to the Financial Statements

For the year ended December 31, 2010

42.4 Capital Adequacy

The risk weighted assets to capital ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy was as follows:

		Capital Requirements		Risk Weighted Assets	
		2010	2009	2010	2009
(Rupees in '000)					
Credit Risk					
Portfolios subject to standardized approach (simple or comprehensive)					
On-Balance Sheet					
Corporate portfolio		12,444,765	10,928,917	115,459,216	101,485,148
Banks / DFIs		444,321	1,071,254	4,122,296	9,947,588
Public sector entities		330,845	378,392	3,069,491	3,513,725
Sovereigns / cash & cash equivalents		537,630	642,408	4,987,985	5,965,352
Loans secured against residential property		189,672	198,943	1,759,731	1,847,383
Retail		3,161,672	3,653,858	29,333,155	33,929,470
Past due loans		660,003	830,110	6,123,329	7,708,344
Operating fixed assets		2,213,924	1,913,288	20,540,194	17,766,654
Other assets		2,133,270	2,384,455	19,791,909	22,141,877
		22,116,100	22,001,625	205,187,306	204,305,541
Off-Balance Sheet					
Non-market related		3,178,387	4,048,605	29,488,233	37,595,057
Market related		18,134	23,335	168,239	216,690
		3,196,521	4,071,940	29,656,472	37,811,747
Equity Exposure Risk in the Banking Book					
Listed		219,616	92,259	2,037,538	856,713
Unlisted		81,364	79,491	754,869	738,152
		300,979	171,750	2,792,407	1,594,865
Total Credit Risk		25,613,601	26,245,316	237,636,185	243,712,153
Market Risk					
Capital requirement for portfolios subject to standardized approach					
Interest rate risk		684,116	930,563	8,551,446	11,632,039
Equity position risk		712,207	644,076	8,902,587	8,050,949
Foreign exchange risk		157,520	765,954	1,969,001	9,574,418
Total Market Risk		1,553,843	2,340,593	19,423,034	29,257,406
Operational Risk					
Capital requirement for operational risks		5,846,092	5,155,801	73,076,148	64,447,511
Total	B	33,013,536	33,741,710	330,135,367	337,417,070

		2010	2009
		(Rupees in '000)	
Capital Adequacy Ratio			
Total eligible regulatory capital held	A	72,856,360	64,356,557
Total Risk Weighted Assets	B	330,135,367	337,417,070
Capital Adequacy Ratio	A / B	22.07%	19.07%

* As SBP capital requirement of 10% (2009: 10%) is calculated on overall basis therefore, capital charge for credit risk is calculated after excluding capital requirements against market and operational risk from the total capital required.

43 RISK MANAGEMENT

MCB defines risk as any deviation from an anticipated outcome that may affect the value, capital or earnings of the Bank. Identifying and managing exposure to risk is an integral part of strategic and operational activities of risk management. Bank's risk management policy is aimed at setting the best course of action under uncertainty by identifying, prioritizing,

Notes to the Financial Statements

For the year ended December 31, 2010

mitigating and monitoring risk issues. With the goal of enhancing shareholders' value, following are the five guiding principles of robust risk management structure:

- Optimizing risk/return in a controlled manner
- Establishing clear responsibility and accountability
- Establishing independent and properly resourced risk management function.
- Promoting open risk culture
- Adopting international best practices in risk management

Keeping in view dynamics of internal and external environment, the bank regularly reviews and updates policy manuals / frameworks and procedures in accordance with domestic regulatory environment and international standards.

The Bank executes its risk strategy and undertakes controlled risk-taking activities within its risk management framework. This framework combines core policies, procedures and process design with broad oversight and is supported by risk monitoring across the bank. The Board of Directors and its relevant committee, i.e. the Risk Management & Portfolio Review Committee (RM&PRC) and the senior management and its relevant committees, i.e. the Management Committee (MC), Asset Liability Committee (ALCO), etc., are responsible to ensure formulation and implementation of comprehensive Risk Management Framework. This framework is based on prudent risk identification, measurement, management and monitoring process which are closely aligned with the activities of the bank so as to ensure that risks are kept within an acceptable level.

As part of risk assessment process, the Bank ensures that not only the relevant risks are identified but their implications are considered and basis provided for managing and measuring the risks. Through Internal Control units, the Bank ensures that effective controls are in place to mitigate each of the identified risk.

Independent from business groups, Head of Risk Management reports functionally to the Risk Management & Portfolio Review Committee (RM&PRC) and administratively to the President; the RM&PRC committee convenes regularly to evaluate bank's risk and portfolio concentrations. The Risk Management Group performs the following critical functions:

- Credit Risk Management
- Credit Review
- Credit Risk Control
- Market Risk Management
- Operational Risk Management

In line with regulatory guidelines under Pillar II of the Basel framework, the Bank has initiated Internal Capital Adequacy Assessment Process (ICAAP).

In context of the financial services industry and the requirements laid down via BSD Circular No. 03 of 2007 dated April 14, 2007 by the State Bank of Pakistan (SBP) and Pillar II of Basel II, defining and operationalising risk appetite has assumed critical importance. The financial industry is now widely seen recognizing the importance of articulating risk appetite and also linking it to limit setting, risk control and performance measurement.

Keeping in view the international best practices and SBP requirements, Board of Directors of the Bank has approved a Risk Appetite Statement, which takes into account quantitative and qualitative risk indicators, covering target ratios, credit, market, operational, liquidity and business risks.

43.1 Credit Risk

Credit risk arises from our dealings with individuals, corporate, financial institutions, sovereigns etc. The Bank is exposed to credit risk through its lending and investment activities. It also stems from activities both on and off-balance sheet activities. Credit risk makes up the largest part of the Bank's exposure. Purpose of credit risk function is to identify measure, manage, monitor and mitigate credit risk. Organizational structure of this function ensures pre and post-facto management of credit risk. While, Credit Review function provides pre-fact evaluation of counterparties, the Credit Risk Control (CRC) performs post-fact evaluation of financing facilities and review clients' performance as an ongoing process.

The Bank has adopted standardized approach to measure Credit risk regulatory charge in compliance with Basel-II requirements. The approach is reliant upon the assessment of external credit rating agencies. In line with SBP guidelines on Internal Credit Ratings Systems the Bank has developed a system and all its corporate borrowers are internally rated. Bank is in the process of continuously improving the system and bringing it inline with the Basel framework requirements.

In order to manage bank's credit risk, the bank has the following policies and procedures in place:

- Individuals who take or manage risks clearly understand them in order to protect the Bank from avoidable risks;
- The approval of credit limits to counter parties are subject to pre-fact review;
- Extension in credit facility or material change to the credit facility is subject to credit review;
- Approval and review process is reviewed by RM & PRC and internal audit;
- Management periodically reviews the powers of credit approving and credit reviewing authorities.

Notes to the Financial Statements

For the year ended December 31, 2010

As a part of credit assessment Bank, uses internal rating framework as well as the ratings assigned by the external credit rating agencies, wherever available.

Ongoing administration of the credit portfolio is an essential part of the credit process that supports and controls extension and maintenance of credit. The Bank's Credit Risk Control, being an independent function from the business and operations groups, is responsible for performing following activities:

- Credit disbursement authorization;
- Collateral coverage and monitoring;
- Compliance of loan covenants/ terms of approval;
- Maintenance/ custody of collateral and security documentation.

Credit Risk Monitoring is based on a comprehensive reporting framework, continuous monitoring of the credit portfolio and the risks attached thereto are carried out at different levels including businesses, Audit & Risk Assets Review, Credit Risk Control, Credit Risk Management Division, etc.

To ensure a prudent distribution of asset portfolio, the Bank manages its lending and investment activities within a framework of risk profile benchmarks. Per party exposure limit is maintained in accordance with SBP Prudential Regulation R-1.

The Bank creates specific provision against Non-Performing Loans (NPLs) in accordance with the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against consumer loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on advances. Please refer note No. 10.4 for reconciliation of changes in specific and general provisions.

Management of Non-Performing Loans

The Bank has a Special Asset Management Group (SAMG), which is responsible for management of non-performing loans. SAMG undertakes restructuring / rescheduling of problem loans, as well as litigation of both civil and criminal cases for collection of debt.

Stress Testing

The Bank also conducts stress testing of its existing portfolio, which includes all assets, i.e., advances as well as investments. This exercise is conducted on a semi-annual basis through assigning shocks to all assets of the Bank and assessing its resulting affect on capital adequacy inline with SBP requirements.

43.1.1 Segmental information

Segmental Information is presented in respect of the class of business and geographical distribution of advances (gross), deposits, contingencies and commitments.

	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
43.1.1.1 Segments by class of business						
Agriculture, forestry, hunting and fishing	2,541,907	0.93	39,865,496	9.24	366,696	0.27
Mining and quarrying	157,736	0.06	371,755	0.09	388,575	0.29
Textile	40,354,192	14.72	1,669,316	0.39	26,185,570	19.22
Chemical and pharmaceuticals	12,990,612	4.74	1,600,137	0.37	5,219,494	3.83
Cement	3,648,217	1.33	30,564	0.01	694,911	0.51
Sugar	9,062,880	3.31	728,325	0.17	734,344	0.54
Footwear and leather garments	2,782,358	1.01	164,847	0.04	1,017,338	0.75
Automobile and transportation equipment	476,630	0.17	510,051	0.12	760,204	0.56
Electronics and electrical appliances	2,202,681	0.80	168,801	0.04	756,986	0.56
Construction	—	—	—	—	—	—
Power (electricity), gas, water, sanitary	36,348,248	13.26	724,626	0.17	4,617,725	3.39
Wholesale and Retail Trade	22,119,616	8.07	33,258,336	7.71	3,143,491	2.31
Exports / imports	—	—	—	—	—	—
Transport, storage and communication	67,013,507	24.44	461,437	0.11	2,952,413	2.17
Financial	4,268,631	1.56	5,642,220	1.31	38,254,338	28.08
Insurance	426	0.00	1,612,642	0.37	8,429	0.01
Services	4,536,701	1.65	90,629,594	21.01	2,791,931	2.05
Individuals	22,007,235	8.03	223,040,400	51.70	18,413	0.01
Others	43,632,347	15.92	30,893,390	7.15	48,334,739	35.47
	274,143,924	100	431,371,937	100	136,245,597	100

Notes to the Financial Statements

For the year ended December 31, 2010

	2009					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
Agriculture, forestry, hunting and fishing	2,606,240	0.97	34,509,866	9.39	1,055,277	0.88
Mining and quarrying	611,408	0.23	294,235	0.08	24,942	0.02
Textile	31,377,649	11.63	1,393,648	0.38	4,741,012	3.95
Chemical and pharmaceuticals	15,197,729	5.63	1,013,664	0.28	3,689,010	3.08
Cement	3,886,303	1.44	14,565	0.00	28,633	0.02
Sugar	6,328,298	2.35	438,319	0.12	40,215	0.03
Footwear and leather garments	2,279,204	0.85	208,767	0.06	54,727	0.05
Automobile and transportation equipment	2,293,028	0.85	539,065	0.15	336,712	0.28
Electronics and electrical appliances	2,204,672	0.82	149,539	0.04	318,098	0.27
Construction	2,785,464	1.03	—	—	238,562	0.20
Power (electricity), gas, water, sanitary	37,940,970	14.07	1,461,906	0.40	531,536	0.44
Wholesale and Retail Trade	18,565,483	6.88	33,909,697	9.22	2,202,054	1.84
Exports / imports	4,257,087	1.58	—	—	3,987,621	3.33
Transport, storage and communication	58,748,442	21.78	285,773	0.08	152,713	0.13
Financial	6,866,088	2.55	10,026,720	2.73	44,941,870	37.48
Insurance	1,285	0.00	1,344,562	0.37	2,152	0.00
Services	6,642,802	2.46	62,135,724	16.90	285,914	0.24
Individuals	27,049,649	10.03	195,463,714	53.17	367,077	0.31
Others	40,080,375	14.86	24,414,947	6.64	56,923,762	47.47
	<u>269,722,176</u>	<u>100</u>	<u>367,604,711</u>	<u>100</u>	<u>119,921,887</u>	<u>100</u>

	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
43.1.1.2 Segment by sector						
Public / Government	78,725,414	28.72	14,673,234	3.40	35,044,121	25.72
Private	195,418,510	71.28	416,698,703	96.60	101,201,476	74.28
	<u>274,143,924</u>	<u>100</u>	<u>431,371,937</u>	<u>100</u>	<u>136,245,597</u>	<u>100</u>

	2009					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
Public / Government	79,707,503	29.55	11,100,632	3.02	39,390,760	32.85
Private	190,014,673	70.45	356,504,079	96.98	80,531,127	67.15
	<u>269,722,176</u>	<u>100</u>	<u>367,604,711</u>	<u>100</u>	<u>119,921,887</u>	<u>100</u>

Notes to the Financial Statements

For the year ended December 31, 2010

43.1.1.3 Details of non-performing advances and specific provisions by class of business segment

	2010		2009	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	(Rupees in '000)			
Agriculture, forestry, hunting and fishing	417,169	290,886	713,511	384,054
Mining and quarrying	—	—	2,176	2,021
Textile	4,258,684	3,691,316	3,862,699	3,329,483
Chemical and pharmaceuticals	148,866	148,866	153,231	145,779
Cement	531,715	265,857	—	—
Sugar	1,160,081	1,059,540	1,177,714	557,152
Footwear and leather garments	128,292	128,292	118,061	101,686
Automobile and transportation equipment	114,482	84,721	133,671	77,419
Electronics and electrical appliances	323,271	322,558	338,647	321,521
Construction	127,404	116,056	68,039	60,621
Power (electricity), gas, water, sanitary	2,000	500	—	—
Wholesale and retail trade	4,516,086	4,254,729	5,010,321	3,453,025
Exports / imports	320,868	316,530	442,731	408,280
Transport, storage and communication	139,397	69,707	49,240	44,012
Financial	1,275,315	998,750	869,818	766,750
Services	615,006	568,668	479,395	349,113
Individuals	3,605,321	2,778,450	2,804,634	2,018,306
Others	6,859,850	3,835,145	7,014,835	3,659,123
	<u>24,543,807</u>	<u>18,930,571</u>	<u>23,238,723</u>	<u>15,678,345</u>

43.1.1.4 Details of non-performing advances and specific provisions by sector

Public/ Government	—	—	—	—
Private	<u>24,543,807</u>	<u>18,930,571</u>	<u>23,238,723</u>	<u>15,678,345</u>
	<u>24,543,807</u>	<u>18,930,571</u>	<u>23,238,723</u>	<u>15,678,345</u>

43.1.1.5 Geographical segment analysis

	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & Commitments
	(Rupees in '000)			
Pakistan	25,751,183	556,340,340	78,896,061	134,065,828
Asia Pacific (including South Asia)	289,426	8,233,398	290,102	1,737,926
Middle East	212,466	2,978,875	18,046	441,843
	<u>26,253,075</u>	<u>567,552,613</u>	<u>79,204,209</u>	<u>136,245,597</u>

	2009			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & Commitments
	(Rupees in '000)			
Pakistan	22,538,236	498,216,844	69,189,718	115,393,307
Asia Pacific (including South Asia)	355,775	7,117,974	357,914	2,877,120
Middle East	260,934	3,888,909	192,381	1,651,460
	<u>23,154,945</u>	<u>509,223,727</u>	<u>69,740,013</u>	<u>119,921,887</u>

Total assets employed include intra group items of Rs. NIL (2009: Rs. NIL).

Notes to the Financial Statements

For the year ended December 31, 2010

43.1.2 Credit Risk – General Disclosures

The Bank has adopted Standardized approach of Basel II for calculation of capital charge against credit risk in line with State Bank requirements.

43.1.2.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

Under standardized approach, the capital requirement is based on the credit rating assigned to the counterparties by the External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. Bank utilizes, wherever available, the credit ratings assigned by the SBP recognized ECAIs, viz. PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company– Vital Information Systems), Fitch, Moody's and Standard & Poors . Credit rating data for advances is obtained from recognized External Credit Assessment Institutions and then mapped to State Bank of Pakistan's Rating Grades.

Type of Exposures for which the ratings from the External Credit Rating Agencies are used by the Bank.

Exposures	JCR-VIS	PACRA	OTHER (S&P / Moody's / Fitch)
Corporate	Yes	Yes	–
Banks	Yes	Yes	Yes
Sovereigns	–	–	Yes
SME's	Yes	Yes	–

The criteria for transfer public issue ratings onto comparable assets in the banking book and the alignment of the alphanumerical scale of each agency used with risk buckets is the same as specified by the banking regulator SBP in BSD Circular No.8 table 2.3.

Long – Term Ratings Grades Mapping

SBP Rating Grade	PACRA	JCR-VIS	Fitch	Moody's	S&P	ECA Scores
1	AAA AA+ AA AA–	AAA AA+ AA AA–	AAA AA+ AA AA–	Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA–	1
2	A+ A A–	A+ A A–	A+ A A–	A1 A2 A3	A+ A A–	2
3	BBB+ BBB BBB–	BBB+ BBB BBB–	BBB+ BBB BBB–	Baa1 Baa2 Baa3	BBB+ BBB BBB–	3
4	BB+ BB BB–	BB+ BB BB–	BB+ BB BB–	Ba1 Ba2 Ba3	BB+ BB BB–	4
5	B+ B B–	B+ B B–	B+ B B–	B1 B2 B3	B+ B B–	5,6
6	CCC+ and below	CCC+ and below	CCC+ and below	Caa1 and Below	CCC+ and below	7

Short – Term Ratings Grades Mapping

SBP Rating Grade	PACRA	JCR-VIS	Fitch	Moody's	S&P
S1	A–1	A–1	F1	P–1	A–1+, A–1
S2	A–2	A–2	F2	P–2	A–2
S3	A–3	A–3	F3	P–3	A–3
S4	Others	Others	Others	Others	Others

Notes to the Financial Statements

For the year ended December 31, 2010

Credit Exposures subject to Standardised approach

Exposures	Rating	2010			2009		
		Amount Outstanding	Deduction CRM	Net amount	Amount Outstanding	Deduction CRM	Net amount
		(Rupees in '000)					
Corporate	1	8,813,855	–	8,813,855	14,146,516	–	14,146,516
	2	11,067,495	–	11,067,495	5,160,828	–	5,160,828
	3,4	1,736,237	–	1,736,237	764,389	–	764,389
	5,6	–	–	–	798,230	–	798,230
	Unrated	106,426,460	–	106,426,460	94,113,697	–	94,113,697
Bank	1	18,116,088	–	18,116,088	14,541,435	–	14,541,435
	2,3	929,748	–	929,748	436,070	–	436,070
	4,5	943	–	943	928	–	928
	6	6,344	–	6,344	4,108,093	–	4,108,093
	Unrated	91,104	–	91,104	2,497,023	–	2,497,023
Public Sector Entities in Pakistan	1	–	–	–	6,986,305	–	6,986,305
	2,3	3,039,527	–	3,039,527	–	–	–
	4,5	–	–	–	–	–	–
	6	–	–	–	–	–	–
	Unrated	81,068,380	76,145,209	4,923,171	75,506,214	71,273,287	4,232,927
Sovereigns and on Government of Pakistan or provincial governments or SBP or Cash	1	37,863,496	–	37,863,496	33,010,037	–	33,010,037
	2	–	–	–	–	–	–
	3	–	–	–	–	–	–
	4,5	4,987,985	–	4,987,985	5,965,352	–	5,965,352
	6	–	–	–	–	–	–
	Unrated	–	–	–	–	–	–
Mortgage		5,027,804	–	5,027,804	5,278,238	–	5,278,238
Retail		39,110,873	–	39,110,873	45,239,293	–	45,239,293

43.1.3 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Bank does not make use of on and off-balance sheet netting in capital charge calculations under Basel-II's Standardized Approach for Credit Risk.

43.1.3.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

The Bank has strong policies and processes for collateral valuation and collateral management thus ensuring that collateral valuation happens at regular defined intervals. Collaterals are normally held for the life of exposure. Regular monitoring of coverage of exposure by the collateral and lien/ charge registered over the collaterals is carried out besides ensuring that collateral matches the purpose, nature and structure of the transaction and also reflect the form and capacity of the obligor, its operations, nature of business and economic environment. The Bank mitigates its risk by taking collaterals that may include assets acquired through the funding provided, as well as cash, government securities, marketable securities, current assets, fixed assets, and specific equipment, commercial and personal real estate.

The Standardized Approach of Basel-II guidelines allows the Bank to take benefit of credit risk mitigation of financial collaterals against total exposures in the related loan facilities. As a prudent and conservative measure while calculating capital charge for credit risk of on statement of financial position activities, bank has taken only the benefit of Sovereign guarantee.

Notes to the Financial Statements

For the year ended December 31, 2010

MCB manages limits and controls concentrations of credit risk as identified, in particular, to individual counterparties and groups, and also reviews exposure to industry sectors and geographical regions on a regular basis. Limits are applied in a variety of forms to portfolios or sectors where MCB considers it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth.

Concentration of risk

Out of the total financial assets of Rs. 530,304.938 million (2009: Rs. 478,409.900 million) the financial assets which are subject to credit risk amounting to Rs. 519,661.765 million (2009: Rs. 468,387.690 million). To manage credit risk the bank applies credit limits to its customers and obtains adequate collaterals. Investments amounting to Rs.199,088.205 million (2009: Rs. 152,915.75 million) are guaranteed by the Government of Pakistan. In addition, an amount of Rs. 24,393.181 million (2009: Rs. 20,916.298 million) are held by the Bank with the State Bank of Pakistan and central banks of other countries.

43.1.3.2 Equity position risk in the banking book

The Bank takes proprietary equity positions for both trading and strategic purposes. The Bank has invested in its subsidiaries and associated companies to achieve long term strategic objectives. As of December 31, 2010 the composition of equity investments subsidiaries and associated companies is as follows:

Composition of equity investments

Exposures	Held for trading	Available for Sale	Subsidiary and Associates
Equity investments – publicly traded	–	6,868,869	943,600
Equity investments – others	–	523,915	525,365
Total value	–	7,392,784	1,468,965

Classification of equity investments

Banks classify its equity investment portfolio in accordance with the directives of SBP as follows:

- Investments – Held for trading
- Investments – Available for sale
- Investments in associates
- Investments in subsidiaries

Policies, valuation and accounting of equity investments

The accounting policies for equity investments are designed and their valuation is carried out under the provisions and directives of State Bank of Pakistan, Securities and Exchange Commission of Pakistan and the requirements of approved International Accounting Standards as applicable in Pakistan.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than investments in subsidiaries and investments in associates are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the statement of financial position below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realized upon disposal. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account currently.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

The cumulative realized gain of Rs. 378.189 million has been charged to profit & loss account from sale of equity securities; however unrealized gain of Rs. 1,170.485 million was recognized in the statement of financial position in respect of "AFS" securities. Further a provision for impairment in value of equity investments amounting to Rs. 195.769 million has been charged to profit and loss account.

Notes to the Financial Statements

For the year ended December 31, 2010

43.2 Market Risk Management

Market risk arises from changes in market rates (such as Interest Rates, Foreign Exchange Rates and Equity Prices) as well as their correlations and volatilities. MCB is exposed to market risk primarily through its trading activities, which are centered in the Treasury and Foreign exchange and Capital market groups. Market risk also arises from market-making, facilitation of client business and proprietary positions in equities, fixed income and interest rate products and foreign exchange, which exposes bank to interest rate risk, foreign exchange risk and equity price risk. Market risk is also assumed as a result of bank's statement of financial position and capital management activities.

The Bank's Market Risk Management structure consists of Risk Management Committee of the Board, ALCO, and independent Market Risk Management Division reporting directly to Group Head Risk Management. Market Risk Management Division is responsible for policy formulation, controlling of market risk including monitoring of exposures against limits; assessment of risks in new business; developing procedures, market risk measurement and reporting system. Market risk authority, including both approval of market risk limits and approval of market risks is vested in the ALCO.

As per SBP instructions (BSD Circular 8, 2006) trading book shall consist of positions in financial instruments held with trading intent or in order to hedge other elements of the trading book. Hence the bank has clearly defined, in its Risk Management policy, the positions which shall be subject to market risk. The definition covers the accounting classifications as well as positions booked by different business groups under "Available for Sale" category. The assets subject to trading book treatment are frequently valued and actively managed. The positions which does not fulfill the criteria of Trading book falls under the Banking Book and are treated as per SBP requirements.

The Bank measures and manages Market risk by using conventional methods i.e. notional amounts and sensitivity. Bank has established a specific Market Risk Limit Policy providing guideline for assuming controlled market risk, its monitoring and management. A reasonable number of limits are set and approved. These Limits are compared with the numbers generated by the market risk management system based on the trading activity and the outstanding position on risk measurement date.

Besides conventional methods, the Bank uses VaR (Value at Risk) technique for market risk assessment of assets booked by its treasury and capital market groups. In-house and vendor based solutions are used for calculating mark to market value of positions and generating VaR (value at risk) and sensitivity numbers. Variance co-variance approach of VaR measure for conventional products and Monte Carlo simulation approach for derivative and structured products are being used by the bank.

Stress testing of both banking and trading books as per SBP guidelines is a regular feature.

The Bank is exposed to interest rate risk both in trading and banking books. Risk numbers along with the marked to market values of government securities held by the Bank's treasury are generated on daily basis. The risk numbers include duration, PVB, and VaR on individual security basis as well as on portfolio basis. These reports are presented to the senior management for review on a daily basis.

43.2.1 Foreign Exchange Risk Management

Foreign exchange risk represents exposures the bank has due to changes in the values of current holdings and future cash flows denominated in currencies other than home currency. The types of instruments exposed to this risk include investments in foreign branches, foreign currency-denominated loans, foreign currency-denominated deposits, future cash flows in foreign currencies arising from foreign exchange transactions, etc.

The core objective of foreign exchange risk management is to ensure the foreign exchange exposure of the Bank remain within defined risk appetite and insulate bank against losses that may arise due to volatile movements in foreign exchange rates or interest rates.

Notes to the Financial Statements

For the year ended December 31, 2010

Limit structure to manage Foreign exchange risk is in place. Gap limits on different tenures have been introduced for USD exposures. Gap limit for other major currencies will be introduced depending upon the significance of exposure in that currency. Bank's net open position and Foreign exchange exposure limit (FEEL) is monitored and reported on daily basis. Additionally, daily reports are generated to evaluate the exposure in different currencies. Risk management system generates VaR and PVBP numbers for foreign exchange portfolio to estimate the potential loss under normal conditions. Stress testing of foreign exchange portfolio is also performed and reported to senior management. All these activities are performed on a daily basis.

	2010			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	545,689,856	468,137,556	1,740,181	79,292,481
United States Dollar	20,279,528	13,920,166	(6,665,221)	(305,859)
Pound Sterling	473,095	2,170,830	1,696,111	(1,624)
Japanese Yen	544	44,138	47,434	3,840
Euro	820,530	4,002,992	3,181,495	(967)
Other currencies	289,060	72,722	–	216,338
	<u>567,552,613</u>	<u>488,348,404</u>	<u>–</u>	<u>79,204,209</u>

	2009			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	493,610,963	422,573,623	(1,108,310)	69,929,030
United States Dollar	14,317,231	11,828,720	(2,779,180)	(290,669)
Pound Sterling	277,235	1,870,038	1,596,226	3,423
Japanese Yen	109,825	167	(109,376)	282
Euro	762,031	3,211,166	2,504,675	55,540
Other currencies	146,442	–	(104,035)	42,407
	<u>509,223,727</u>	<u>439,483,714</u>	<u>–</u>	<u>69,740,013</u>

43.2.2 Equity Price Risk

Bank's proprietary positions in the equity instruments expose it to the equity price risk in its trading and banking books. Equity price risk is managed by applying trading limit, scrip-wise and portfolio wise nominal limits. VaR numbers generation and stress testing of the equity portfolio are also performed and reported to senior management on daily basis. The stress test for equity price risk assesses the impact of the fall in the stock market index. This exercise is done on internal based assumptions in addition to the criteria advised by the State Bank of Pakistan for Stress Testing on Equities.

Notes to the Financial Statements

For the year ended December 31, 2010

43.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

Yield / interest rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.

	Effective Yield/ Interest rate	Total	2010								Not exposed to Yield/ Interest Risk
			Exposed to Yield/ Interest risk								
			Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	
(Rupees in '000)											
On-balance sheet financial instruments											
Assets											
	0%	45,407,183	2,974,718	-	-	-	-	-	-	-	42,432,465
	0.55% to 3%	1,478,569	404,254	-	-	-	-	-	-	-	1,074,315
	12.80% to 13.50%	4,401,781	1,510,027	-	2,891,754	-	-	-	-	-	-
	4.5% to 16.12%	211,591,917	52,052,595	69,509,187	77,743,838	1,049,725	1,567,893	2,622,223	-	1,439,615	5,606,841
	15.00%	254,551,589	152,730,953	50,910,318	38,182,738	12,727,579	-	-	-	-	-
	Other assets – net	12,873,899	-	-	-	-	-	-	-	-	12,873,899
		530,304,938	209,672,547	120,419,505	118,818,330	13,777,304	1,567,893	2,622,223	-	1,439,615	61,987,520
Liabilities											
		10,265,537	-	-	-	-	-	-	-	-	10,265,537
	6 % to 14 %	25,684,593	13,638,811	4,940,120	4,940,120	1,082,771	1,082,771	-	-	-	-
	5% to 13%	431,371,937	221,149,086	16,906,178	13,768,970	23,497,887	930,669	669,222	2,249,840	1,045,299	151,154,786
	Other liabilities	12,922,168	-	-	-	-	-	-	-	-	12,922,168
		480,244,235	234,787,897	21,846,298	18,709,090	24,580,658	2,013,440	669,222	2,249,840	1,045,299	174,342,491
		50,060,703	(25,115,350)	98,573,207	100,109,240	(10,803,354)	(445,547)	1,953,001	(2,249,840)	394,316	(112,354,971)
On-balance sheet gap											
Off-balance sheet financial instruments											
		20,154,200	12,279,293	4,980,758	2,226,096	668,052	-	-	-	-	-
	Foreign exchange contracts purchase	76,563	-	-	-	-	76,563	-	-	-	-
	Cross currency swaps – long position	20,230,763	12,279,293	4,980,758	2,226,096	668,052	76,563	-	-	-	-
		22,245,693	12,917,004	6,180,514	3,148,175	-	-	-	-	-	-
	Foreign exchange contracts sale	76,563	-	-	-	-	76,563	-	-	-	-
	Cross currency swaps – short position	22,322,256	12,917,004	6,180,514	3,148,175	-	76,563	-	-	-	-
		(2,091,493)	(637,711)	(1,199,756)	(922,079)	668,052	-	-	-	-	-
Off-balance sheet gap											
Total yield / interest risk sensitivity gap											
		(25,753,060)	97,373,451	99,187,162	(10,135,301)	(445,547)	1,953,001	(2,249,840)	394,316	-	-
Cumulative yield / interest risk sensitivity gap											
		(25,753,060)	71,620,391	170,807,552	160,672,251	160,226,704	162,179,705	159,929,865	160,324,181	160,324,181	

Notes to the Financial Statements

For the year ended December 31, 2010

43.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

Yield / interest rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.

	Effective Yield/ Interest rate	Total	2009								Not exposed to Yield/ Interest Risk
			Exposed to Yield/ Interest risk								
			Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	
(Rupees in '000)											
On-balance sheet financial instruments											
Assets											
	0%	38,774,871	2,522,549	-	-	-	-	-	-	-	36,252,322
	0.12% to 1%	6,009,993	950,330	-	-	-	-	-	-	-	5,059,663
	12.35% to 12.70%	3,000,000	1,000,000	2,000,000	-	-	-	-	-	-	-
	4.5% to 16.12%	165,749,639	17,543,637	50,084,055	28,508,489	56,948,201	707,468	1,311,516	2,670,133	2,787,640	5,188,500
	15.00%	253,249,407	151,949,644	50,649,882	37,987,411	12,662,470	-	-	-	-	-
	Other assets – net	11,625,990	-	-	-	-	-	-	-	-	11,625,990
		478,409,900	173,966,160	102,733,937	66,495,900	69,610,671	707,468	1,311,516	2,670,133	2,787,640	58,126,475
Liabilities											
		8,201,090	-	-	-	-	-	-	-	-	8,201,090
	12.05% to 12.50%	44,682,088	33,662,171	4,450,466	4,441,734	1,058,442	1,049,275	-	-	-	-
	5% to 9.5%	367,604,711	179,635,312	9,793,315	6,139,604	37,229,475	852,485	1,292,144	2,309,620	1,454,949	128,897,807
	Other liabilities	12,343,202	-	-	-	-	-	-	-	-	12,343,202
		432,811,091	213,297,483	14,243,781	10,581,338	38,287,917	1,901,760	1,292,144	2,309,620	1,454,949	149,442,099
On-balance sheet gap											
		45,598,809	(39,331,323)	88,490,156	55,914,562	31,322,754	(1,194,292)	19,372	360,513	1,332,691	(91,315,624)
Off-balance sheet financial instruments											
		23,832,214	11,904,381	10,021,332	1,906,501	-	-	-	-	-	-
	Foreign exchange contracts purchase	83,333	-	-	-	83,333	-	-	-	-	-
	Interest rate swaps – long position	124,845	-	-	-	-	124,845	-	-	-	-
	Cross currency swaps – long position	24,040,392	11,904,381	10,021,332	1,906,501	83,333	124,845	-	-	-	-
		23,037,004	9,518,707	7,797,744	5,720,553	-	-	-	-	-	-
	Foreign exchange contracts sale	83,333	-	-	-	83,333	-	-	-	-	-
	Interest rate swaps – short position	124,845	-	-	-	-	124,845	-	-	-	-
	Cross currency swaps – short position	23,245,182	9,518,707	7,797,744	5,720,553	83,333	124,845	-	-	-	-
		795,210	2,385,674	2,223,588	(3,814,052)	-	-	-	-	-	-
Off-balance sheet gap											
		(36,945,649)	90,713,744	52,100,510	31,322,754	(1,194,292)	19,372	360,513	1,332,691	-	-
Total yield / interest risk sensitivity gap											
		(36,945,649)	53,768,095	105,888,605	137,191,359	135,997,067	136,016,439	136,376,952	137,709,643	137,709,643	-
Cumulative yield / interest risk sensitivity gap											

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

Notes to the Financial Statements

For the year ended December 31, 2010

Reconciliation to total assets	2010 (Rupees in '000)	2009	Reconciliation to total liabilities	2010 (Rupees in '000)	2009
Balance as per statement of financial position	567,552,613	509,223,727	Balance as per statement of financial position	488,348,404	439,483,714
Less: Non financial assets			Less: Non financial liabilities		
Investments	1,468,965	1,384,826	Other liabilities	3,170,151	3,475,880
Operating fixed assets	20,947,540	18,014,896	Deferred tax liability	4,934,018	3,196,743
Other assets	14,831,170	11,414,105		8,104,169	6,672,623
	37,247,675	30,813,827			
Total financial assets	530,304,938	478,409,900	Total financial liabilities	480,244,235	432,811,091

43.4 Liquidity Risk

Liquidity represents the ability to fund assets and meet obligations as they become due. The Bank understands that liquidity does not come for free, and surplus liquidity has an opportunity cost which needs to be recognized. Liquidity risk is a risk of not being able to obtain funds at a reasonable price within a reasonable time period to meet obligations as they become due. Because liquidity is critical to the ongoing viability of any financial institution, liquidity management is among the most important activities that MCB conducts. MCB recognizes that liquidity risk can arise from the Bank's activities and can be grouped into three categories:

- Inflows/outflows from on-balance sheet items (other than marketable securities and wholesale borrowings) and off-balance sheet items;
- Marketability of trading securities; and
- Capacity to borrow from the wholesale markets for funding as well as trading activities.

Bank monitors and assesses the impact of increase in NPLs, deposits concentration, deposits withdrawal, decline in earnings, expanded business opportunities, acquisitions and negative reputation, on its liquidity positions.

Liquidity Management

MCB's liquidity risk management framework is designed to identify measure and manage in a timely manner the liquidity risk position of the Bank. The underlying policies and procedures include: Risk Management policy, Treasury and Investment policy, Contingency Funding Plan and Limit Structure which are reviewed and approved regularly by the senior management /Board members. MCB liquidity risk policy envisages to project the Bank's funding position during temporary and long-term liquidity changes, including those caused by liability erosion and explicitly identifying quantifying and ranking all sources of funding preferences, such as reducing assets, modifying or increasing liability structure; and using other alternatives for controlling statement of financial position changes. MCB's liquidity risk management approach involves intraday liquidity management, managing funding sources and evaluation of structural imbalances in statement of financial position structure.

Intraday Liquidity Management

Intraday liquidity management is about managing the daily payments and cash flows. Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment system. The policy of the Bank is to maintain adequate liquidity at all times, in all geographical locations and for all currencies and hence to be in a position, in the normal course of business, to meet obligations, repay depositors and fulfill commitments.

Managing Funding Sources

Managing funding sources, as per policy MCB maintain a portfolio of marketable securities that can either be sold outright or sold through a repurchase agreement to generate cash flows for meeting unexpected liquidity requirement. As a part of liquidity management MCB maintains borrowing relationships to ensure the continued access to diverse market of funding sources. MCB's sound credit rating together with excellent market reputation has enabled MCB to secure ample call lines with local and foreign banks. The level of liquidity reserves as per regulatory requirements also mitigates risks. MCB's investment in marketable securities is much higher than the Statutory Liquidity requirements.

Notes to the Financial Statements

For the year ended December 31, 2010

43.4.1 Maturities of Assets and Liabilities – Based on contractual maturity of the assets and liabilities of the Bank

		2010									
Total		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
		(Rupees in '000)									
Assets											
Cash and balances with treasury banks	45,407,183	45,407,183	—	—	—	—	—	—	—	—	
Balances with other banks	1,478,569	1,478,569	—	—	—	—	—	—	—	—	
Lendings to financial institutions	4,401,781	1,510,027	—	2,891,754	—	—	—	—	—	—	
Investments – net	213,060,882	41,715,017	69,523,376	79,607,464	4,805,688	5,267,577	5,203,638	784,119	4,685,038	1,468,965	
Advances – net	254,551,589	32,663,674	50,898,988	12,553,379	80,993,551	23,826,658	19,863,742	22,173,449	11,319,171	258,977	
Operating fixed assets	20,947,540	97,709	195,419	293,128	586,257	1,172,513	1,172,513	2,345,026	5,862,565	9,222,410	
Deferred tax assets	1,217,509	18,893	62,718	18,892	388,317	383,669	59,565	92,500	192,955	—	
Other assets – net	27,705,069	5,340,702	5,365,939	126,263	3,173,722	51	—	13,698,392	—	—	
	568,770,122	128,231,774	126,046,440	95,490,880	89,947,535	30,650,468	26,299,458	39,093,486	22,059,729	10,950,352	
Liabilities											
Bills payable	10,265,537	10,265,537	—	—	—	—	—	—	—	—	
Borrowings	25,684,593	13,638,811	4,940,120	4,940,120	1,082,771	1,082,771	—	—	—	—	
Deposits and other accounts	431,371,937	372,303,872	16,906,178	13,768,971	23,497,887	930,669	669,222	2,249,840	1,045,298	—	
Deferred tax liabilities	6,151,527	18,441	36,880	55,321	110,647	101,895	101,895	4,593,686	447,854	684,908	
Other liabilities	16,092,319	7,936,734	1,192,525	1,992,157	1,288,856	1,719,647	376,097	733,870	852,433	—	
	489,565,913	404,163,395	23,075,703	20,756,569	25,980,161	3,834,982	1,147,214	7,577,396	2,345,585	684,908	
Net assets	79,204,209	(275,931,621)	102,970,737	74,734,311	63,967,374	26,815,486	25,152,244	31,516,090	19,714,144	10,265,444	
Share capital											
Reserves	7,602,150										
Unappropriated profit	40,162,906										
Surplus on revaluation of assets – net of tax	21,414,955										
	10,024,198										
	79,204,209										

Notes to the Financial Statements

For the year ended December 31, 2010

43.4.1 Maturities of Assets and Liabilities – Based on contractual maturity of the assets and liabilities of the Bank

	2009									
Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	38,774,871	-	-	-	-	-	-	-	-	-
Balances with other banks	6,009,993	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	3,000,000	2,000,000	-	-	-	-	-	-	-	-
Investments – net	167,134,465	50,098,194	30,281,032	59,460,431	5,662,050	3,018,659	4,424,767	5,209,460	1,384,826	
Advances – net	253,249,407	50,638,610	12,489,161	80,579,221	23,704,771	19,762,127	22,060,019	11,261,267	257,651	
Operating fixed assets	18,014,896	88,572	265,717	531,434	1,062,868	1,062,868	2,125,736	5,314,340	7,386,216	
Deferred tax assets	1,620,834	9,082	26,195	332,189	307,935	341,615	394,186	164,474	-	
Other assets – net	23,040,095	4,251,638	201,363	3,460,971	260,081	-	10,478,517	-	-	
	510,844,561	107,210,745	43,263,468	144,364,246	30,997,705	24,185,269	39,483,225	21,949,541	9,028,693	
Liabilities										
Bills payable	8,201,090	-	-	-	-	-	-	-	-	-
Borrowings	44,662,088	4,450,466	4,441,734	1,058,442	1,049,275	-	-	-	-	-
Deposits and other accounts	367,604,711	9,793,315	6,139,604	37,229,475	852,485	1,292,144	2,309,620	1,454,949	-	-
Deferred tax liabilities	4,817,577	36,580	54,870	109,741	219,481	113,768	167,694	3,682,146	415,007	
Other liabilities	15,819,082	1,090,620	1,694,516	2,600,731	1,976,687	443,678	869,033	818,069	-	
	441,104,548	15,370,981	12,330,724	40,998,389	4,097,928	1,849,590	3,346,347	5,955,164	415,007	
Net assets	69,740,013	91,839,764	30,932,744	103,365,857	26,899,777	22,335,679	36,136,878	15,994,377	8,613,686	
Share capital										
Reserves	6,911,045									
Unappropriated profit	38,385,760									
Surplus on revaluation of assets – net of tax	15,779,127									
	8,664,081									
	69,740,013									

When an asset or liability does not have any contractual maturity date, the period in which these are assumed to mature has been taken as the expected date of maturity.

Notes to the Financial Statements

For the year ended December 31, 2010

43.4.2 Maturities of Assets and Liabilities – Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

		2010									
Total		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
		(Rupees in '000)									
Assets	Cash and balances with treasury banks	45,407,183	—	—	—	—	—	—	—	—	
	Balances with other banks	1,478,569	—	—	—	—	—	—	—	—	
	Lendings to financial institutions	4,401,781	1,510,027	2,891,754	—	—	—	—	—	—	
	Investments – net	213,060,882	69,523,376	79,607,464	4,805,688	5,267,577	5,203,638	784,119	4,685,038	1,468,965	
	Advances – net	254,551,589	32,663,674	50,898,988	80,993,551	23,826,658	19,863,742	22,173,449	11,319,171	258,977	
	Operating fixed assets	20,947,540	97,709	293,128	586,257	1,172,513	1,172,513	2,345,026	5,862,565	9,222,410	
	Deferred tax assets	1,217,509	18,893	18,892	388,317	383,669	59,565	92,500	192,955	—	
	Other assets – net	27,705,069	5,340,702	126,263	3,173,722	51	—	13,698,392	—	—	
		568,770,122	128,231,774	126,046,440	95,490,880	89,947,535	30,650,468	26,299,458	39,093,486	22,059,729	10,950,352
	Liabilities	Bills payable	10,265,537	4,940,120	—	1,082,771	—	—	—	—	—
Borrowings		25,684,593	13,638,811	4,940,120	1,082,771	1,082,771	—	—	—	—	
Deposits and other accounts		431,371,937	65,162,986	43,874,251	67,655,091	64,654,210	48,339,407	78,023,871	13,137,682	—	
Deferred tax liabilities		6,151,527	18,441	55,321	110,647	101,895	101,895	4,593,686	447,854	684,908	
Other liabilities		16,092,319	7,936,734	1,992,157	1,288,856	1,719,647	376,097	733,870	852,433	—	
Net assets		489,565,913	97,022,509	56,693,964	70,137,365	67,558,523	48,817,399	83,351,427	14,437,969	684,908	
		79,204,209	31,209,265	69,352,476	19,810,170	(36,908,055)	(22,517,941)	(44,257,941)	7,621,760	10,265,444	
Share capital		7,602,150									
Reserves		40,162,906									
Unappropriated profit		21,414,955									
Surplus on revaluation of assets – net of tax		10,024,198									
		79,204,209									

Refer the sub-note to note 43.4.1 also. Current and saving deposits do not have any contractual maturity. Therefore, current deposits and saving accounts have been classified between all nine maturities. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

Notes to the Financial Statements

For the year ended December 31, 2010

43.4.2 Maturities of Assets and Liabilities – Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

2009											
Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years		
(Rupees in '000)											
Assets											
Cash and balances with treasury banks	38,774,871	-	-	-	-	-	-	-	-	-	-
Balances with other banks	6,009,993	-	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	3,000,000	2,000,000	-	-	-	-	-	-	-	-	-
Investments – net	167,134,465	50,098,194	30,281,032	59,460,431	5,662,050	3,018,659	4,424,767	5,209,460	1,384,826	-	-
Advances – net	253,249,407	32,496,580	12,489,161	80,579,221	23,704,771	19,762,127	22,060,019	11,261,267	257,651	-	-
Operating fixed assets	18,014,896	88,572	265,717	531,434	1,082,868	1,082,868	2,125,736	5,314,340	7,386,216	-	-
Deferred tax assets	1,620,834	9,082	26,195	332,189	307,935	341,615	394,186	164,474	-	-	-
Other assets – net	23,040,095	4,251,638	201,363	3,460,971	260,081	-	10,478,517	-	-	-	-
	510,844,561	107,210,745	43,263,468	144,364,246	30,997,705	24,185,269	39,483,225	21,949,541	9,028,693	-	-
Liabilities											
Bills payable	8,201,090	-	-	-	-	-	-	-	-	-	-
Borrowings	44,662,088	4,450,466	4,441,734	1,058,442	1,049,275	-	-	-	-	-	-
Deposits and other accounts	367,604,711	42,646,512	91,180,668	122,270,538	25,468,818	19,318,014	15,796,725	8,045,411	6,444,890	-	-
Deferred tax liabilities	4,817,577	36,580	54,870	109,741	219,481	113,768	167,694	3,682,146	415,007	-	-
Other liabilities	15,819,082	6,325,748	1,694,516	2,600,731	1,976,687	443,678	869,033	818,069	-	-	-
	441,104,548	84,640,434	97,371,788	126,039,452	28,714,261	19,875,460	16,833,452	12,545,626	6,859,897	-	-
Net assets	69,740,013	5,721,235	(54,108,320)	18,324,794	2,283,444	4,309,809	22,649,773	9,403,915	2,168,796	-	-
Share capital											
Reserves	6,911,045	-	-	-	-	-	-	-	-	-	-
Unappropriated profit	38,385,760	-	-	-	-	-	-	-	-	-	-
Surplus on revaluation of assets – net of tax	15,779,127	-	-	-	-	-	-	-	-	-	-
	8,664,081	-	-	-	-	-	-	-	-	-	-
	69,740,013	-	-	-	-	-	-	-	-	-	-

Refer the sub-note to note 43.4.1 also. Current and saving deposits do not have any contractual maturity. Therefore, current deposits and saving accounts have been classified between all nine maturities. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

Notes to the Financial Statements

For the year ended December 31, 2010

43.5 Operational Risk

Operational Risk is risk of loss resulting from an inadequacy or a failure ascribable to people, processes, technology or external events. This definition includes legal risk, but excludes strategic and reputational risk.

Operational Risk Management Division (ORMD) within Risk Management Group (RMG) is primarily responsible for oversight of bank-wide operational risk management. ORMD is independent of revenue generating functions. Although, respective business and support functions are the risk takers / owners, ORMD provides assistance and guidance for proactive operational risk management. The Risk Management Policy and bank-wide Operational Risk Management Framework (ORMF) have been developed in line with international best practices. The policy and framework are reviewed periodically so as to incorporate the current changes.

Major processes for operational risk management include, but not limited to Risk and Control Self Assessment, loss database management, enhancing operational risk awareness through workshops and sessions. ORMD has active coordination with audit and compliance for information sharing on Key Risk Indicators (KRIs) with respect to management of various operational risk aspects within the bank.

43.5.1 Operational Risk-Disclosures Basel II Specific

Currently, the bank is reporting operational risk capital charge under Basic Indicator Approach (BIA). However, a number of initiatives are underway for adoption of The Standardized Approach (TSA) / Alternative Standardized Approach (ASA) like business line mapping, risk and control self assessment exercises.

ORMD initiated the process of collecting loss data on key risk events in the year 2007. Based on periodical analysis of loss data, ORMD generates reports for senior management and Risk Management and Portfolio Review Committee (RM&PRC) of the Board. The report covers the significant risk events, impact analysis and recommendations for improvement in control / risk mitigation.

44. GENERAL

Comparative information has been reclassified and rearranged in these financial statements for the purpose of comparison. No significant reclassification has been made except for as follows:

Description	Amount (Rs. in 000)	Reclassified	
		From	To
Commission on home remittance	124,092	Other income	Fee, commission and brokerage income
Fee paid to MCI issuer transactions	4,141	Markup / return / interest expense	Administrative expenses

45. NON-ADJUSTING EVENT

The Board of Directors in its meeting held on February 10, 2011 has announced a final cash dividend in respect of the year ended December 31, 2010 of Rs.3.0 per share (2009: Rs. 3.5 per share) and bonus shares of 10% (2009: 10%). These financial statements for the year ended December 31, 2010 do not include the effect of these appropriations which will be accounted for subsequent to the year end.

46. DATE OF AUTHORIZATION FOR ISSUE

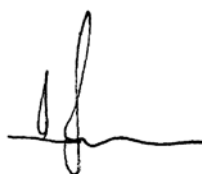
These financial statements were authorized for issue by the Board of Directors of the Bank in their meeting held on February 10, 2011.



M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Mohammed Hussein
Director



Mian Umer Mansha
Director

For the year ended December 31, 2010

1 Particulars of Investments in listed companies, mutual funds and modarabas – available for sale

Investee Entities	Note	Number of Ordinary and preference shares/ certificates/ units held	Paid-up value per share/ certificate/ unit	Total paid-up/ nominal value	Cost as at December 31, 2010
			Rupees	(Rupees in '000)	
Fully Paid-up Preference Shares					
Azgard Nine Limited		1,160,241	10	11,602	11,602
Masood Textile Mills Limited	1.1	5,000,000	10	50,000	50,000
					61,602
Fully Paid-up Ordinary Shares					
Abbott Laboratories Pakistan Limited		135,600	10	1,356	25,200
Allied Bank Limited		4,885,721	10	48,857	394,108
Arif Habib Limited		78,337	10	783	13,908
Arif Habib Investments Limited		778,500	10	7,785	14,576
Arif Habib Corporation Limited (formerly Arif Habib Securities Limited)		1,529,875	10	15,299	214,004
Askari Bank Limited		6,429,864	10	64,299	301,018
Atlas Bank Limited		1,512,199	10	15,122	23,352
Attock Petroleum Limited		396,344	10	3,963	124,588
Bank Alfalah Limited		301,735	10	3,017	10,541
Bank Al-Habib Limited		6,668,613	10	66,686	221,373
Century Papers & Board Mills Limited		54,540	10	545	1,556
Fauji Fertilizer Bin Qasim Company Limited		5,400,371	10	54,004	196,917
Fauji Fertilizer Company Limited		8,662,968	10	86,630	726,264
Glaxosmithkline Pakistan Limited		484,672	10	4,847	64,437
Habib Bank Limited		544,760	10	5,448	90,943
Habib Metropolitan Bank Limited		1,160,000	10	11,600	38,678
Ibrahim Fibers Limited		30,000	10	300	1,231
IGI Insurance Company of Pakistan Limited		269,510	10	2,695	42,529
Indus Motor Company Limited		27,027	10	270	5,566
International Industries Limited		344,942	10	3,449	26,427
Kohinoor Energy Limited		55,000	10	550	1,566
Kot Addu Power Company Limited		1,406,600	10	14,066	62,931
Mehr Dastagir Textile Mills Limited		1,616,912	10	16,169	16,169
Maple Leaf Cement Company Limited		3,833,500	10	38,335	68,266
Millat Tractors Limited		182,060	10	1,821	53,686
Oil & Gas Development Company Limited		30,515	10	305	3,020
Packages Limited		39,911	10	399	8,368
Pakistan Cables Limited		42,716	10	427	7,098
Pakistan Oilfields Limited		526,500	10	5,265	137,699
Pakistan Petroleum Limited		574,726	10	5,747	95,668
Pakistan Telecommunication Company Limited		5,053,731	10	50,537	225,135
Pakistan Tobacco Company Limited		49,000	10	490	7,962
Rupali Polyester Limited		658,545	10	6,585	46,475
Soneri Bank Limited		3,943,006	10	39,430	121,456
Sui Northern Gas Pipelines Limited		47,728,822	10	477,288	2,205,253
Samba Bank Limited		30,963,000	10	309,630	147,150
The Bank of Punjab		6,423,100	10	64,231	170,996
Trust Securities & Brokerage Limited		300,000	10	3,000	3,000
Unilever Pakistan Limited		33,280	50	1,664	47,891
United Bank Limited		6,967,440	10	69,674	508,211
Wateen Telecom Limited		7,965,466	10	79,655	79,655
Zulfiqar Industries Limited		30,537	10	305	3,556
Total					6,558,427

For the year ended December 31, 2010

Investee Entities	Name of Management Company	Number of Ordinary and preference shares/ certificates/ units held	Paid-up value per share/ certificate/ unit Rupees	Total paid-up/ nominal value (Rupees in '000)	Cost as at December 31, 2010
Fully Paid-up Modaraba Certificates					
First Al-Noor Modaraba	Al-Noor Modaraba Management (Private) Limited	5,553,270	10	55,532.70	60,606
Total					60,606
Carrying value (before revaluation and provision) listed shares 'available for sale'					6,680,635
Provision for diminution in value of investments					(2,636,770)
Surplus on revaluation of securities					1,089,882
Market value as at December 31, 2010					5,133,747

Fully Paid-up Ordinary Certificates/ Units of Mutual Funds	Name of Management Company	Number of units held	Paid-up value per unit Rupees	Total paid-up/ nominal value (Rupees in '000)	Cost as at December 31, 2010
MCB Dynamic Stock Fund (IPO)	MCB Asset Management Company Limited	1,033,301	100	103,330	82,981
MCB Dynamic Allocation Fund (IPO)	MCB Asset Management Company Limited	1,000,000	100	100,000	100,000
Carrying value before revaluation & provision					182,981
Provision for diminution in value of investments					(85,504)
Surplus on revaluation of securities					80,474
Market value as at December 31, 2010					177,951

- 1.1** These are redeemable after the end of the fourth year from June 2005 at the option of the issuer either in whole or multiples of 10% of outstanding issue at a price of Rs. 10 per share plus any accumulated preference dividend. Dividend rate is 6 months KIBOR + 200 bps per annum.

For the year ended December 31, 2010

2 Particulars of Investment held in unlisted companies-available for sale

Company Name	Percentage of holding (%)	Number of shares / certificates held	Cost as at December 31, 2010	Net Asset Value of total investment	Based on audited financial statements as at	Name of Chief Executive
(Rupees in '000)						
Shareholding more than 10%						
Fully paid up preference shares						
Fazal Cloth Mills Limited (2.1)	40.00%	10,000,000	100,000	–		Mr. Sheikh Naseem Ahmed
Fully paid up Ordinary Shares/ Certificates/ Units						
Pak Asian Fund Limited	10.22%	1,150,000	11,500	18,764	June 30, 2010	Mr. Ashfaq A. Berdi
Khushali Bank Limited	17.60%	30,000,000	300,000	362,640	December 31, 2009	Mr. Ghalib Nishtar
Next Capital Limited	10.00%	1,000,000	10,000	9,752	June 30, 2010	Mr. Najam Ali
Central Depository Company of Pakistan Limited	10.00%	5,000,000	10,000	158,389	June 30, 2010	Mr. Mohammad Hanif Jhakura
			331,500			
Shareholding upto 10%						
Fully paid up Ordinary Shares/ Certificates/ Units						
First Capital Investment Limited		250,000	2,500	2,647	June 30, 2010	Mr. Syed Kashan Kazmi
National Institute of Facilitation Technology Private Limited		985,485	1,527	51,952	June 30, 2010	Mr. Mohammad Naeem Malik
National Investment Trust Limited		79,200	100	97,491	June 30, 2010	Mr. Wazir Ali Khoja
SME Bank Limited		1,490,619	10,106	10,212	December 31, 2010	Mr. R. A. Chughtai
Arabian Sea Country Club		500,000	5,000	4,481	June 30, 2010	Mr. Arif Ali Khan Abbasi
Society for Worldwide Inter Fund Transfer (SWIFT)		18	1,738	5,276	December 31, 2009	Mr. Lazara Campos
Credit Information Bureau of Sri Lanka		300	23	5,421	March 31, 2009	Mr. G. P. Karunaratne
Lanka Clear (Private) Limited		100,000	772	2,988	March 31, 2010	Mr. Sunimal Weerasooriya
Lanka Financial Services Bureau Limited		100,000	772	970	March 31, 2009	Mr. Rajendra Thegarajah
Pakistan Agro Storage and Services corporation*		2,500	2,500	–	–	–
Equity Participation Fund*		15,000	1,500	–	–	–
Al-Ameen Textile Mills Limited.*		19,700	197	–	–	–
Ayaz Textile Mills Limited.*		225,250	2,252	–	–	–
Custodian Management Services*		100,000	1,000	–	–	–
Musarrat Textile Mills Limited.*		3,604,500	36,045	–	–	–
Sadiqabad Textile Mills Limited.*		2,638,261	26,383	–	–	–
			92,415			
Cost of unlisted shares / certificates / units			523,915			
Provision against unlisted shares			(70,645)			
Carrying value of unlisted shares / certificates / units			453,270			

* These are fully provided unlisted shares.

2.1 These carry dividend rate of 6 months KIBOR + 2.5% per annum. The percentage of holding disclosed is in proportion to the preference share paid up capital.

For the year ended December 31, 2010

3. Particulars of investments in Term Finance Certificates and Sukuk Bonds– (refer note 9)

Investee	Number of certificates held	Paid up value per certificate	Total Paid up Value (before redemption)	Profit	Principal Redemption	Balance as at December 31, 2010	Name of Chief Executive
	(Rupees)					(Rupees in '000)	
LISTED TERM FINANCE CERTIFICATES – available for sale							
Askari Bank Limited – issue no. III	50,000	5,000	250,000,000	6 months KIBOR + 2.5% p.a. for first five years & 6 months KIBOR +2.95% for next five years	0.32% of principal amount in the first 96 months and remaining principal in four equal semi annual installments starting from the 102nd month from issue.	249,900	Mr. R. Mehakri
Alfalah Bank Limited – issue no. III	100,000	5,000	500,000,000	6 months KIBOR + 2.5% p.a.	0.26% of principal amount in the first 78 months and remaining principal in three semi –annual installment staring from the 84th month.	499,800	Mr. Sirajuddin Azizi
Pak Arab Fertilizers Limited	20,000	5,000	100,000,000	6 months KIBOR + 1.5% p.a.	In six stepped –up semi-annual installments starting from the 30th month from July 2007.	94,000	Mr. Fawad Ahmed Mukhtar
United Bank Limited – issue no. IV	144,399	5,000	721,995,000	6 months KIBOR + 1.7% p.a.	0.2% of the principal in the first 60 months and remaining principal in 6 equal semi annual installments from September 2006.	681,361	Mr. Atif R. Bokhari
Allied Bank Limited – issue no. I	11,960	5,000	59,800,000	6 months KIBOR + 0.85% p.a. for first five years & 6 months KIBOR+1.30% for next 5 years.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	55,788	Mr. Khalid Sherwani
Allied Bank Limited – issue no. II	19,000	5,000	95,000,000	6 months KIBOR + 0.85% p.a. for first five years & 6 months KIBOR+1.30% for next 5 years.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	91,351	Mr. Khalid Sherwani
Carrying value before revaluation						1,672,200	
Surplus on revaluation of securities						15,903	
Market value of listed TFCs (revalued amount)						1,688,103	
SUKUK BONDS – available for sale							
	Terms of Redemption		Rate of interest	Currency			
	Principal	Interest					
WAPDA Sukuk Bonds	At maturity	Half-yearly	6 Month KIBOR+0.35%	PKR		400,000	Mr. Muhammad Shakil Durrani
Government of Pakistan Ijara Sukuks	At maturity	Half-yearly	6–Month MTB Auction Weighted Average Yield.	PKR		1,700,000	
Deficit on revaluation of securities						(5,273)	
Market value of sukuk bonds						2,094,727	

For the year ended December 31, 2010

Investee	Number of certificates held	Paid up value per certificate	Total Paid up Value (before redemption)	Profit	Principal Redemption	Balance as at December 31, 2010	Name of Chief Executive
		(Rupees)				(Rupees in '000)	
TERM FINANCE CERTIFICATES – held to maturity							
Askari Bank Limited – issue no. I	20,000	5,000	100,000,000	6 months KIBOR + 1.5% p.a.	0.3% of principal amount in the first 90 months and the remaining principal in the 96th month from February 2005.	97,811	Mr.R. Mehakri
– issue no. II	19,980	5,000	99,900,000	6 months KIBOR + 1.5% p.a.	0.3% of principal amount in the first 90 months and the remaining principal in the 96th month from October 2005.	96,793	—do—
	39,980		199,900,000				
Bank Alfalah Limited – issue no. II	10,000	5,000	50,000,000	6 months KIBOR + 1.5% p.a.	0.25% of principal in the first 78 months and remaining principal in 3 semi-annual installments of 33.25% each of the issue amount starting from the 84th month from November 2004.	49,259	Mr. Sirajuddin Aziz
– issue no. III	39,720	5,000	198,600,000	6 months KIBOR + 1.5% p.a.	0.25% of the principal in the first 78 months and remaining in 3 semi annual installments of 33.25% each starting from the 84th month from November 2005.	192,911	—do—
	49,720		248,600,000				
Jahangir Siddiqui and Company Limited	56	5,000,000	280,000,000	6 months KIBOR + 1.5% to 2.2% p.a. over 10 years	In 4 equal semi-annual installments, starting from 8-1/2 years from December 2004.	279,272	Mr. Munaf Ibrahim
Bank Al Habib Limited	20,000	5,000	100,000,000	6 months KIBOR + 1.5% p.a. with a floor and cap of 3.5% and 10% per annum respectively.	0.02% of total issue in equal installments in first 78 months and the remaining principal in 3 semi-annual installments from the 84th month from July 2004.	95,423	Mr. Abbas D. Habib
Soneri Bank Limited	30,000	5,000	150,000,000	6 months KIBOR + 1.6% p.a.	In 4 semi annual equal installments starting from the 78th month from May 2005.	145,842	Mr. Atif Bajwa
United Bank Limited – issue no. III	56,978	5,000	284,890,000	6 months KIBOR + 1.7% p.a.	0.2% of the principal in the first 60 months and remaining principal in 6 equal semi annual installments from September 2006.	282,122	Mr. Atif R. Bokhari
Allied Bank Limited	46,400	5,000	232,000,000	6 months KIBOR + 0.85% p.a. for first five years & 6 months KIBOR+1.30% for next 5 years.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	231,908	Mr. Khalid Sherwani
JDW Sugar Mills Limited	45,000	5,000	225,000,000	3 months KIBOR + 1.25% p.a.	Quarterly installments starting from March 23, 2010	175,000	Mr. Jehangir Khan Tareen
Shakarganj Mills Limited	16,000	5,000	80,000,000	6 Month KIBOR +2.25% p.a.	In 10 equal semi-annual installments starting from 18th Month from the date of issue date.	80,000	Mr. Ahsan Saleem
Islamabad Electric Supply Company Limited	200,000	5,000	1,000,000,000	6 Month KIBOR +0.23% p.a.	In 4 equal semi-annual installments starting from November 2009.	750,000	Mr. Javed Pervaiz
Gujranwala Electric Supply Company Limited	200,000	5,000	1,000,000,000	6 Month KIBOR +0.23% p.a.	In 4 equal semi-annual installments starting from November 2009.	750,000	Muhammad Ibrahim Majoka
Faisalabad Electric Supply Company Limited	200,000	5,000	1,000,000,000	6 Month KIBOR +0.23% p.a.	In 4 equal semi-annual installments starting from November 2009.	750,000	Tanveer Salfder Cheema
Carrying value of unlisted TFCs						3,976,341	

The above excludes unlisted term finance certificates, debentures, bonds and participation term certificates of companies which are fully provided for in these financial statements.

For the year ended December 31, 2010

4. Details of Bonds, Debentures and Federal Government Securities (refer note 9) – held to maturity

Description	Terms of Redemption		Rate of interest	Currency	Foreign Currency Amount	Carrying value as at December 31, 2010
	Principal	Interest				
					(‘000)	(Rupees in ‘000)
Debentures						
Singer (Sri Lanka) Plc.	At maturity	Half-yearly	21.85%	SLR	90,000	69,462
Sukuk Bonds						
WAPDA Sukuk Bonds	At maturity	Half-yearly	6 Month KIBOR +0.35%	PKR	–	400,000
Sui Southern Gas Company Limited Sukuk Bonds	At maturity	Quarterly	3 Month KIBOR +1.4%	PKR	–	145,833
Maple Leaf Cement Factory Limited Sukuk Bonds	In 8 unequal semi-annual installments	Half-yearly	6 Month KIBOR +1.70%	PKR	–	374,681
Quetta Textile Mills Limited Sukuk Bonds	In 12 equal semi-annual installments	Half-yearly	6 Month KIBOR +1.50%	PKR	–	72,500
J.D.W Sugar Mills Limited Sukuk Bonds	In 18 unequal quarterly installments	Quarterly	3 Month KIBOR +1.25%	PKR	–	136,111
Sitara Energy Limited	In 8 equal semi-annual installments	Half-yearly	6 Month KIBOR +1.15%	PKR	–	98,636
Century Paper and Boards Mills Limited Sukuk Bonds	At maturity	Half-yearly	6 Month KIBOR +1.35%	PKR	–	200,000
					–	1,427,761
Euro Bonds						
Pakistan Euro Bonds	At maturity	Half-yearly	7.125% & 6.875 %	US\$	16,892	1,446,590

5 Investment in subsidiaries

Details of the Bank's subsidiary companies are as follows:

Name	% of holding	Country of incorporation	Year of incorporation
MCB Financial Services Limited	* 99.99	Pakistan	1992
MNET Services (Private) Limited	* 99.95	Pakistan	2001
MCB Trade Services Limited	100	Hong Kong	2005
MCB Asset Management Company Limited	* 99.99	Pakistan	2005
"MCB Leasing" Closed Joint Stock Company	95	Azerbaijan	2009

* Remaining shares are held by certain individuals as nominees of the Bank.

6 Summarized financial information of associated undertakings (refer note 9)

The gross amount of assets, liabilities, revenue, profit and net assets of associated undertakings are as follows:

Name of associated undertaking	Country of incorporation	Assets	Liabilities	Net assets (Rupees in ‘000)	Revenue	Profit after tax	% of interest held
2010							
First Women Bank Limited (unaudited based on September 30, 2010)	Pakistan	12,804,666	11,704,309	1,100,357	460,994 *	18,687	26.78%
Adamjee Insurance Company Limited (unaudited based on September 30, 2010)	Pakistan	25,809,424	15,155,098	10,654,326	5,049,611 **	133,317	29.13%
		38,614,090	26,859,407	11,754,683	5,510,605	152,004	
2009							
First Women Bank Limited (unaudited based on September 30, 2009)	Pakistan	10,645,302	9,481,305	1,163,997	415,120 *	(7,684)	26.78%
Adamjee Insurance Company Limited (unaudited based on September 30, 2009)	Pakistan	21,364,087	10,882,002	10,482,085	5,187,372 **	2,308,817	29.13%
		32,009,389	20,363,307	11,646,082	5,602,492	2,301,133	

* * Represents net mark-up / interest income and non mark up income

** Represents net premium revenue

For the year ended December 31, 2010

Islamic Banking Business

Report of Shariah Advisor

The Shareholders of MCB Bank Limited

The year under review was the 2010 of Islamic Commercial Banking Operation of MCB Islamic Banking Group (MCB IBG). During the year MCB IBG developed and executed a number of Islamic Commercial Banking Products in consultation with the Shariah Advisor of the Bank. Currently the bank is offering a number of Shariah compliant Commercial Banking Products on both asset and liability sides which include;

LIABILITY SIDE:

- For general deposits and treasury functions based on the Islamic contract of Mudarbah:
 - Saving accounts for general deposits holders, non banking financial institutions and mutual funds;
 - Term deposits receipts (TDRs) for general deposits holders, non banking financial institutions and mutual funds;
 - Receiving funds from MCB treasury based on Mudarbah;
 - Ijarah (Current) Account for general deposits holders.

ASSETS SIDE:

- Corporate Banking products based on Islamic contracts of Murabahah, Ijarah, and Musharakah (Shirkat-ul-Milk):
 - For working capital finance;
 - For medium and long term finance for plant and machinery;
 - For tangible assets Leasing / Ijarah;
 - Islamic Export Refinance Scheme.
- Murabaha based Trade Finance facilities based on the Islamic contract of Murabaha:
 - Letter of credit (Sight & Usance) local and foreign both.
- Services based facilities to issue different guarantees based on Islamic sub-contract of Kafalah:
 - Different modes of letter of Guarantee.
- Consumer Banking
 - Car Ijarah based on Islamic mode of Ijarah

Rs. 1.621 million deposited by the customers as charity due to late payments of Bank's dues during the year under review. The bank should have disbursed the full amount so deposited during the same year.

I have also reviewed the transactions executed by the bank and found that the transactions were done as per the approved /suggested mechanism. However, while carrying out the Shari'ah compliance process the following observations are made through further improve the Shari'ah compliance of the transactions;

1. It was observed that reconciliation statements, regarding date of receipt of goods under Murabaha arrangement and date of execution of Murabaha contract were not annexed with each Murabaha contract. Therefore in order to further improve the Shariah compliance mechanism, it is advised to annex the same with each Murabaha contract in future.
2. It was noted that prove of goods procured by the bank were provided very late by few of the customers in their capacity as agents of the bank. Accordingly, sanctity of Murabaha contracts can remain at risk at the time of execution of Murabaha contracts.
3. It was noted that in few cases Murabaha contracts were executed with some time difference between the goods procured by the bank and purchased by the customers. However, it is advised that efforts should be made to reduce the said time difference in future, for further improvement.
4. The Bank must make necessary arrangements on priority basis to replace conventional insurance with Takaful arrangements for Islamic Banking asset side products.
5. Alhamdulillah, the Bank is hiring experienced Islamic Bankers and training must be kept continued to new staff members, where required.

The bank is in the process of development and refinement of its products to make the products competitive in the market, conforming to the preferred standard of Shari'ah Compliance.

I would like to take this opportunity to offer praise to Almighty Allah and seek His guidance and Tawfeeq, and to express my wishes for further progress, development and prosperity of MCB IBG and Islamic Banking industry in Pakistan as a whole.



Dr. Muhammad Zubair Usmani
Shariah Advisor
MCB – Islamic Banking Group

Dated: February 10, 2011

For the year ended December 31, 2010

Islamic Banking Business

The Bank operates 14 Islamic banking branches at the end of December 31, 2010 (2009: 11 branches).

Statement of Financial Position

As at December 31, 2010

	2010	2009
	(Rupees in '000)	
ASSETS		
Cash and balances with treasury banks	526,377	315,766
Investments	2,147,807	1,671,364
Financing and receivables		
– Murabaha	1,976,942	1,466,368
– Ijara	381,315	771,734
– Islamic export refinance	1,048,050	1,239,498
Deferred tax asset	1,846	1,352
Other assets	3,260,611	2,725,991
Total Assets	9,342,948	8,192,073
LIABILITIES		
Bills payable	74,335	15,779
Deposits and other accounts		
– Current accounts	322,253	231,793
– Saving accounts	2,902,032	1,450,493
– Term deposits	2,960,509	271,760
– Others	166	2,790
Borrowings from SBP	1,079,000	1,137,307
Due to head office	657,640	3,600,000
Deferred tax liability	–	–
Other liabilities	379,331	420,598
	8,375,266	7,130,520
Net Assets	967,682	1,061,553
REPRESENTED BY		
Islamic banking fund	850,000	850,000
Unappropriated profit	121,110	214,064
	971,110	1,064,064
Deficit on revaluation of assets – net of tax	(3,428)	(2,511)
	967,682	1,061,553
Remuneration to Shariah Advisor / Board	1,424	1,200
CHARITY FUND		
Opening balance	1,998	2,093
Additions during the year		
Received from customers on delayed payments	1,621	1,311
Profit on charity saving account	144	94
	1,765	1,405
Payments / utilization during the year		
Social Welfare	–	(500)
Health	–	(600)
Education	–	(400)
Relief and disaster recovery	(2,000)	–
	(2,000)	(1,500)
Closing balance	1,763	1,998

For the year ended December 31, 2010

Islamic Banking Business

Profit and Loss Account

For the year ended December 31, 2010

	2010 (Rupees in '000)	2009
Income / return / profit earned	956,850	974,180
Income / return / profit expensed	639,234	652,766
	317,616	321,414
Provision against loans and advances – net	49,942	37,736
Provision for diminution in the value of investments	–	–
Bad debts written off directly	–	–
	49,942	37,736
Net profit / income after provisions	267,674	283,678
Other income		
Fees, commission and brokerage income	20,352	16,102
Dividend income	–	–
Income from dealing in foreign currencies	4,805	7,446
Other Income	13,703	14,403
Total other income	38,860	37,951
	306,534	321,629
Other expenses		
Administrative Expenses	183,961	107,263
Other provisions / write offs	–	–
Other charges (Penalty paid to SBP)	1,463	302
Total other expenses	185,424	107,565
Extra ordinary / unusual items	–	–
Profit before taxation	121,110	214,064
Taxation – Current	–	–
– Prior years	–	–
– Deferred	–	–
Profit after taxation	121,110	214,064

For the year ended December 31, 2010

Statement showing written-off Loans or any other financial relief of five hundred thousand rupees or above provided during the year 2010 (refer note 10.5.3).

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Principal Written off	Interest/Mark up Written off	Other Fin. Reliefs Provided	Total
		Name	NIC No.		Principal	Int/Acc/Mup	Others	Total				
1	Jawad Haider Filling Station Address: 76-E-1 Wapda Town, Lahore	Bushra Ali	35303-9854040-8	Syed Sajjad Haider	2,300	1,421	-	3,721	-	-	832	832
2	Nasir Traders Near Degree College Baddo Mahi, Narowal	Nasir Mehmood	34501-12025468-9	Nasirullah Khan	199	557	-	756	-	-	598	598
3	Unar Fabrics 76-New Anarkali, Lahore	Muhammad Nawaz	35202-3595202-5	Haji Jalal Din	2,416	1,090	70	3,576	-	-	896	896
4	Nisar Ahmad Mirza Pur Post Office Mandi Faizabad, Tehsil and District, Nankana Sahib	Nisar Ahmed	35402-1125594-1	Bashir Ahmad	3,142	1,547	-	4,689	-	-	1,752	1,752
5	Liaquat Oil Mills Rehman Road, Miri Shah, Lahore	Liaquat Ali	264-54-118179	Sh. Alta Muhammad	-	1,718	-	1,718	-	-	1,718	1,718
6	Pak Rice & Flour Mills Ban Haji Pura, Sialkot	Abdul Waheed Abid Javaid Sajid Javaid Kamran Wahid	34603-7890211-1 36403-4072797-7 34603-2906038-7 34603-6100643-9	Abdul Rasheed Abdul Waheed Abdul Waheed Abdul Waheed	10,691	9,169	-	19,860	-	-	8,396	8,396
7	Fabruis Construction 43 K Model Town, Lahore	Mashood-ur-Rehman Riaz Ahmed Ch Ruqaya Begum	35202-1259874-1 35202-6987423-1 35202-1479658-9	Riaz Ahmed Ch Muhammad Hassan Ch Riaz Ahmed Ch	1	4,672	139	4,812	-	-	2,311	2,311
8	Hira Farooq 14 G Gulberg III, Lahore	Mian Bashrat Zia Mian Faz Janil Mian Ifkhar Ahmed Mian Ayaz Farooq Mian Waqar Mohsin Mrs. Khawar Ayyaz Mrs. Shazia Bashrat	35202-5545555-5 35202-1569841-3 35202-1269856-4 35202-5155855-5 35202-1456985-3 35202-3256944-5 35202-1563354-7	Ch. Muhammad Hussain Ch. Muhammad Hussain Ch. Muhammad Zia Ch. Muhammad Hussain Ch. Muhammad Hussain Mian Ayaz Ahmed Mian Bashrat Zia	-	67,735	1,200	68,935	-	-	51,335	51,335
9	SB Metal Casting 2- Retanwala, Gujranwala	Arshad Saidtqui	285-68-046231	Muhamamd Ibrahim	-	1,958	-	1,958	-	-	990	990
10	Warraich Flour Mills Gujrat, Sargodha Road	Bashir Ahmed	34403-2826199-1	Sardar Khan	4,968	2,982	-	7,950	-	-	5,202	5,202
11	Al Mojn Foundry 410/B, G.T. Road, Daroghawala, Lahore	Mian Muhammad Fayyaz	35201-5482511-1	Muhamamd Shafi	4,999	2,889	-	7,888	-	-	2,918	2,918
12	Premier Agencies 21-L, DHA, Lahore	M. Abid Sultan	265-68-467011	M. Nawaz	288	6,692	-	6,980	288	-	6,827	7,115
13	SMA International Nasir Road, Sialkot	Mr. Nadeem Sheikh	34603-7015805-9	Sh. Muhammad Aslam	-	1,671	-	1,671	-	-	1,671	1,671

For the year ended December 31, 2010

Statement showing written-off Loans or any other financial relief of five hundred thousand rupees or above provided during the year 2010 (refer note 10.5.3).

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Principal Written off	Interest/ Mark up Written off	Other Fin. Reliefs Provided	Total
		Name	NIC No.		Principal	Int/Acc/Mup	Others	Total				
14	Saadullah Khan & Brothers 10-A Gulberg III, Lahore	Abaidullah Khan	54400-8534874-7	Sh Mirak Khan	5,609	-	4,752	10,361	-	-	5,748	5,748
		Ahsanullah Khan	61101-1802327-9	Abaidullah Khan								
		Asadullah Khan	42201-6811621-9	Sultan Mehmood								
		Fazal Akbar	61101-6464800-5	Rahmatullah Khan								
		Inayatullah Khan	61101-2003813-3	Sh Mirak Khan								
		Kamal Nasir Khan	56503-5034439-7	Abaidullah Khan								
		M Faisal Khan	61101-203811-5	Inayatullah Khan								
		Rahmatullah Khan	61101-7752840-1	Sh Mirak Khan								
		Shahbuddin Khan	54400-0715484-1	Saadullah Khan								
		Javed Iqbal	35201-1633810-1	M. Sharif	-	1,654	-	1,654	-	-	1,654	1,654
15	Hasnain Associates 271-K1 Wapda Town, Lahore											
16	Eni Jay International 85 Jinnah Park, Jilani Street, Sheikhpura	Farid Jillani	35404-5600884-5	Masood Jillani	2,999	2,465	-	5,464	-	-	2,247	2,247
		Mushtaq Ahmad Bhatti	35403-6245788-7	Noor Muhammad								
		Shakil Ahmad Bhatti	35404-6636613-3	M. Atzal Bhatti								
		Najib Jillani	35201-1496421-9	Masood Jillani								
		Muhammad Munawar	35404-7632066-91	M. Nazir								
		Mushtaq Ahmad	35404-1258417-3	Ch Khuda Buksh								
17	Siddique Ikram Industries Kamir Road, Pakpattan Sharif	Muhammad Ijaz	35206-4552233-1	Muhammad Shafi	845	2,028	-	2,873	-	-	3,344	3,344
		Muhammad Ikram	35206-4552336-5	Ali Muhammad								
18	Muazzam Traders Grain Market, Pakpattan Sharif	Sh. Muhammad Afzal	35207-2266521-2	Ali Muhammad	742	2,367	-	3,109	-	-	1,883	1,883
		Sh. Muhammad Arshad	352620-4566233-6	Ali Muhammad								
19	United Corporation Grain Market, Pakpattan Sharif	Mrs. Munazza Yasmin	35202-1545455-6	Muhammad Atzal	177	1,109	-	1,286	-	-	1,141	1,141
		Muhammad Ijaz	35202-1548484-3	Muhammad Shafi								
		Mrs. Safia Ikram	35602-454544-4	Muhammad Ikram								
20	M/s Leatherise 65-D Staff Housing Society, Lahore	Khalid Habib	35202-2543488-7	Habib ur Rehman	1,700	1,090	-	2,790	-	-	960	960
		Rashid Habib	35202-2543953-3	Habib ur Rehman								
		Anjad Habib	35202-2553581-7	Habib ur Rehman								
21	Asad Traders Galla Mandi, Muridke	Shahzab Ahmad	35401-4371705-9	Abdul Ghafoor	2,848	1,658	43	4,549	-	-	1,906	1,906
22	Irshad Sons House No. 675, Shadman Colony, Lahore.	Muhammad Shams Uz Zaman	35202-4566169-1	Ch. Irshad Muhammad	5,660	2,284	32	7,976	-	-	3,356	3,356
23	Muhammad Shams Uz Zaman House No. 675, Shadman Colony, Lahore	Muhammad Shams Uz Zaman	35202-4566169-1	Ch. Irshad Muhammad	4,447	1,139	88	5,674	-	-	1,529	1,529
24	Alpine International 148/2-F Phase 5, DHA, Lahore	Haniat Ull Khairat	35201-9184692-7	Khairat Hussain Ch	-	30,114	-	30,114	-	-	30,114	30,114
		Khairat Hussain Ch	34603-6486609-9	Sadar Din								

For the year ended December 31, 2010

Statement showing written-off Loans or any other financial relief of five hundred thousand rupees or above provided during the year 2010 (refer note 10.5.3).

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Principal Written off	Interest/ Mark up Written off	Other Fin. Reliefs Provided	Total
		Name	NIC No.		Principal	Int/Acc/Mup	Others	Total				
25	Jawed Omer Vohra & Company Room No. 507-511, Karachi Stock Exchange Building, Karachi	Mr. Muhammad Bilal Vohra Mr. Muhammad Iqbal Mr. Syed Ahmed Karim Ms. Ayesha Mubashir Ms. Saira Faraz Ms. Fatima Amir Mian Saleem ul Haq	42301-9975536-7 42301-5207680-9 42201-1243084-3 42301-0943809-4 42301-0992219-4 42301-0350898-6 38403-1287140-9	S/o Javed Omer Vohra (Late) S/o Ismail S/o Syed Altaf Karim W/o Mubashir Usman W/o Faraz Perwaiz W/o amir Naseer Barkhudaria S/o Muhammad Aslam Mian	-	9,808	201	10,009	-	-	10,009	10,009
26	Firdous Carpets (Pvt) Ltd 1) 104, 1st Floor, Al-Farid Centre, Mouvi Tamizuddin Khan Road Karachi 2) 13/14, & 14/14, Firdous Colony, Gulbahar, Karachi	Muhammad Muzaffar (Late) Mrs. Zohra Khatoon Tanveer Muzaffar	42201-8087458-9 42201-6314650-6 42301-4037708-9	S/o Muhammad Idrees W/o Muhammad Muzaffar S/o Muhammad Muzaffar	5,208	2,985	-	8,193	-	-	2,985	2,985
27	Madina Rice Mill Wagan Road Larkana	Haji Fateh Mohammad Shaikh	43203-1368753-7	Muhammad Yousuf Shaikh	1,500	930	-	2,430	-	-	930	930
28	Faruki Pulp Mills Limited 409-Ferozpur Road Lahore	Majeed Akbar Faruki Nasim Akbar Faruki Kaleem Akbar Faruki Mian Naeem Akbar Faruki Salim Akbar Faruki Abdul Sami Pervez Aslam Faruki	34201-0453242-5 34201-0350518-3 35201-1513228-7 35201-1425526-3 35202-7905561-1 35202-4367455-7 35201-6788982-5	Muhammad Akbar Faruki Muhammad Akbar Faruki Muhammad Akbar Faruki Mian Muhammad Akbar Faruki Mian Muhammad Akbar Faruki Abdul Samad Aslam Riaz Faruki	8,744	5,860	-	14,604	-	-	9,015	9,015
29	Kamran Motors D/69, PECHS, Block-2, Karachi	Zaeshan Ali Khan	42201-3946325-3	Farzand Ali Khan	1,821	1,427	-	3,248	-	-	1,427	1,427
30	Kashif Ahmed D-24,Bloc-J, North Nazimabad, Karachi	Kashif Ahmed	42101-1870710-5	Ishtiaq Ahmed	2,890	1,458	-	4,348	-	-	1,458	1,458
31	M/s. Green Way Chemicals P-28/51, Street No. 02, Islam Nagar, Faisalabad	Syed Zafar Ali Shah	33100-4021799-5	Syed Dawaan Ali Shah	-	-	-	-	-	-	775	775
32	M/s. Al Rehmat Cotton Ginning & Pressing (Pvt.) Limited Mungi Bungalow, Tehsil Gojra Distt, T T Singh	Haji Ghulam Rabbani Ch Ali Akbar Tahira Rabbani	255-36-159317 255-34-315914	Haji Barkat Ali Ch. Rehmat Ali Ghulam Rabbani	-	-	-	-	-	-	8,582	8,582
33	Allah Yaar Ansari Ghalla Mandi, Sargodha	Allah Yaar Ansari	231-43-187714	Mian Raniha	-	-	-	-	-	-	738	738
34	Al Furqan Traders 64-Chenab Market, Madina Town, Faisalabad	Sajid Ehsan Zubaida Ehsan	33100-1423473-1 33100-9110783-0	Ehsanullah Ehsanullah	-	-	-	-	-	-	2,776	2,776
35	Rashid & Brothers 302-Jalvi Market, Jarranwala Road, Faisalabad	Ehsan U allah	33100-9361093-3	Abdul Hakeem	2,997	-	-	2,997	-	-	1,644	1,644

For the year ended December 31, 2010

Statement showing written-off Loans or any other financial relief of five hundred thousand rupees or above provided during the year 2010 (refer note 10.5.3).

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year			Principal Written off	Interest/ Mark up Written off	Other Fin. Reliefs Provided	Total
		Name	NIC No.		Principal	Int/Acc/Mup	Others				
36	Shatzad Electronics Kotwali Road, Faisalabad	Naseer U Din Hamayoun Butt	244-55-109945	Mohammad Aslam Butt	801	-	-	801	-	1,479	1,479
37	Charde Garments International P-679, A Small Industrial Estate, Sargodha Road, Faisalabad	Syed Taffakar Hussain Shah Syeda Rukhsana	101-51-072314 601-56-161672	Syed Anwar Hussain Syed Taffakar	613	-	-	613	-	1,192	1,192
38	Deen International 82-Rachna Town, Satiana Road, Faisalabad	Mohammad Ijaz Mohammad Shahbaz	33100-8828395-3 33100-5788385-1	Mohammad Islam Mohammad Islam	2,100	-	-	2,100	-	1,533	1,533
39	Rose Textile Plot No. P-04, Lasani Market, Chiniot Bazar, Faisalabad	Mohammad Zahid	33100-7534305-7	Mohammad Akram	2,100	-	-	2,100	-	1,208	1,208
40	Sangam Hotel & Restaurant (Pvt) Limited Domail Muzatrabad, Azad Kashmir	Sh. Shaukat Rashid Sh. Tahir Rashid Sh. Tariq Rashid	710-89-042830 710-60-042827 710-60-042826	Sh. Abdul Rashid Sh. Abdul Rashid Sh. Abdul Rashid	-	2,517	-	2,517	-	2,517	2,517
41	Standard Furniture House Neelam Road, Muzatrabad	Mehboob-ur-Rehman Tareen	82203-5672310-7	Abdul Latif Khan Tareen	344	2,645	50	3,039	-	2,056	2,056
42	Malik Muhammad Ashraf House No L-32, Street 04, Zafarullah Road, Rawalpindi	Malik Muhammad Ashraf	37405-3453880-1	Muhammad Ismail	1,366	1,404	46	2,816	-	1,276	1,276
43	Pak Printing & Packages Corporation (Pvt) Limited Industrial Estate Hyatabad Peshawar House No 133-A, Laki Gate, Mohalla Salar Yaqub, Bannu City	Mir Alam Jan Khan Alam	17301-4037249-3 17301-9043630-1	Heji Nazir Heji Nazir	24,995	2,606	-	27,601	-	4,886	4,886
44	International Beverages (Pvt) Limited Plot No 281, Industrial Estate I-9, Islamabad	Mehboob Elahi Mehboob Elahi Mehmood Elahi	101-41-045669 101-69-233847 101-76-233849	Muhammad Hussain Mehboob Elahi Mehboob Elahi	4,427	34,170	40	38,637	-	33,196	33,196
45	Al Hadia Agencies Banda Jalal Road, Abbottabad	Wali Muhammad Zaman	13101-9997485-7	Muhammad Zaman	3,199	898	20	4,117	-	1,266	1,266
46	Muhammad Irshad Irshad Hardware Store, Shahrae Resham Punjab Chowk, Mansehra	Muhammad Irshad	13503-0657887-9	Muhammad Suleman	1,397	1,074	45	2,516	-	620	620
47	Rose Wood Handicrafts 50, Street No 01, Committee Mohalla, Rawalpindi	Adeel Mirza Sadaf Mirza Sohail Mirza	210-79-717081 210-77-717080 101-75-565377	Muhammad Yaqub Mirza Muhammad Yaqub Mirza Riaz Akhtar	36	861	35	932	-	-	533

For the year ended December 31, 2010

Statement showing written-off Loans or any other financial relief of five hundred thousand rupees or above provided during the year 2010 (refer note 10.5.3).

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Principal Written off	Interest/ Mark up Written off	Other Fin. Reliefs Provided	Total
		NIC No.			Principal	Intt/Acc/Mup	Others	Total				
		Name										
48	M/S. Iqbal Model Factory 2nd Floor, Adamee House, I.I Chundrigar Road, Karachi	Malik Farrukh Iqbal Nazish Farrukh Safiera Begum	359-62-333792 358-77-772514 359-35-333788	Malik Iqbal Ahmad W/o Malik Farrukh Iqbal W/o Malik Muhammad Iqbal	-	755	-	755	-	-	755	755
49	M/S. S.G Crop Sciences 193-D Block-V Model Town-C, Bahawalpur	Dilber Hussain Muhammad Asif	31202-2571216-5 31202-0284568-7	Muhammad Sadiq Faqir Hussain Javed	-	978	-	978	-	-	978	978
50	M/S. Asif Industries Pvt Ltd. Qaz Wala Road Kilometer # 3, Tehsil Chishtian, Distt.Bahawalnagar	Muhammad Asim Javed Muhammad Hashim Muhammad Asif Javed Mst. Mussarat Iqbal	354-91-164800 354-91-164851 354-93-164852 54-54-164844	Manzoor Javed Manzoor Javed Manzoor Javed W/o Manzoor Ahmed	1,477	5,011	100	6,588	-	-	4,500	4,500
51	M/S. Ghous Corporation Cotton Ginnars Bye Pass Road, Rahim Yar Khan	Mian Abdul Hai Zakia Qayyum Noor Elahi Anwar Fatima Naseem Akhtar Irshad Elahi	358-48-358984 358-90-205887 358-50-358985 358-55-709901 358-56-468189 358-41-036026	Mian Ghous Muhammad W/o Mian Abdul Qayyum D/o Mian Atta Muhammad W/o Mian Abdul Sammad W/o Abdul Salam W/o Mian Ahmad Hassan	-	2,325	-	2,325	-	-	2,325	2,325
52	M/S. Ghous Sons Pvt Ltd. Bye Pass Road, Rahim Yar Khan	Abdul Manan Zakia Qayyum Munawar Fatima Anwar Fatima Irshad Elahi	358-78-666025 358-90-205887 358-56-466189 358-55-709901 358-41-036026	Mian Abdul Qayyum W/o Mian Abdul Qayyum Wo Mian Saleh Muhammad W/o Mian Abdul Sammad W/o Mian Ahmad Hassan	-	7,484	-	7,484	-	-	7,484	7,484
53	M/s Aziz ur Rehman Model Farm & Ginning Ghar Bagir Minthar Road, Sadiqabad	Aziz Ur Rehman Atshan Zareen	360-73-546094 360-93-323740	Jind Wadda W/o Aziz Ur Rehman	1,739	1,507	90	3,336	-	-	1,278	1,278
54	Four Star Cotton Ginnars Chak No.7/F Syedanwala, Chishtian	Javaid Ul Haq Islam Ul Haq Muhammad Anshad	354-93-010671 354-90-010672 352-62-112768	Shah Muhammad Shah Muhammad Muhammad Amin	750	2,456	36	3,242	-	-	2,169	2,169
55	Kissan Dost Corporation Ghalla Mandi, Chishtian	Javaid Ul Haq	354-93-010671	Shah Muhammad	490	1,479	36	2,005	-	-	762	762
56	Rafiq Model Industries Near Railway Station Sheja, Khan pur	Muhammad Rafique Shahid Iqbal Tasneem Akhter Tufiq Iqbal Zafar Iqbal Atiq Ur Rehman Balqees Akhter Khaleed Iqbal Muhammad Afzal Muhammad Arshad	359-88-000926 359-90-327411 359-56-328264 359-62-327410 359-93-326620 359-88-327407 359-50-397029 359-85-405466 359-59-032688 359-54-328263	Fateh Muhammad Faqir Muhammad Faqir Muhammad Faqir Muhammad Fateh Muhammad Faqir Muhammad Faqir Muhammad Fateh Muhammad Fateh Muhammad Fateh Muhammad	4,010	2,824	100	6,934	-	-	2,486	2,486

For the year ended December 31, 2010

Statement showing written-off Loans or any other financial relief of five hundred thousand rupees or above provided during the year 2010 (refer note 10.5.3).

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Principal Written off	Interest/ Mark up Written off	Other Fin. Reliefs Provided	Total
		Name	NIC No.		Principal	Intt/Acc/Mup	Others	Total				
57	S S Gingers 60-A Ghalla Mandi, Khanewal	Muhammad Younas Muhammad Sadiq Muhammad Sharif Khaliq mehmoood	329-90-571733 329-43-012496 329-85-440711 329-90-440714	Muhammad Sharif Noor Muhammad Noor Muhammad Muhammad Sharif	2,250	6,416	100	8,766	-	-	5,769	5,769
58	Lucky Chemicals 62-C Khayaban-e-Sarwar, D.G.Khan	Umer Khosa Akbar Ali Ejaz Fareed Fayyaz Fareed Ghulam Fareed	30959-4327580-0 30965-4168810-0 30993-0148010-0 30979-7099460-0 30993-1220560-0	Hafiz Jindan Muhammad Shafi Muhammad Bukhsh Muhammad Bukhsh Muhammad Bukhsh	1,499	751	40	2,290	-	-	599	599
59	Kissan Agro Industries KLP Road, Rahimyar Khan	Muhammad Nauman Sagheer Muhammad Usman Sagheer	358-77-448082 357-77-448083	Muhammad Sagheer Ahmed Muhammad Sagheer Ahmed	-	1,977	-	1,977	-	-	1,977	1,977
60	Tanveer Masood & Co Airport Road, Khanpur	Javaid Rasul Tanveer Masood	359-54-013425 359-93-013423	Ch Ghulam Rasul Ch Ghulam Rasul	-	1,371	-	1,371	-	-	1,160	1,160
61	Al-Amin Flour Mills KLP Road By Pass, Sadqabad	Rukhsana Tariq Sh Imran Tariq Tahir Mehmood Tariq Mehmood M Zeeshan Tariq	31304-9541664-9 31304-2104105-5 31304-7463059-1 31304-9501684-9 31304-2067888-5	Sh Tariq Mehmood Sh Tariq Mehmood Allah Ditta Allah Ditta Allah Ditta	2,022	1,235	50	3,307	-	-	910	910
62	Shafique & Co 109 Faisal Town Al-Farooq Road, Bahawalpur	Shafique Ahmed	31202-4632874-5	Ghulam Muhammad	1,199	953	55	2,207	-	-	668	668
63	Shalimar Textile Mills KLP Road, Sadqabad	Quyyum Abid Chaudhary	42301-1058223-9	Siddiq Ahmed	5,017	4,949	50	10,016	-	-	1,849	1,849
64	Siddique Zari Services Mouza Gaddai Gharbi Basti Murradani Tehsil & Distt, D.G.Khan	Muhammad Siddique	32102-4848211-9	Muhammad Moosa	1,455	1,088	61	2,604	-	-	1,011	1,011
65	Warraich Traders Adda 28/10 R Kucha Khuh Vehari Road, Khanewal	Ch Safdar Munir	36302-4099280-7	Ch Muhammad Hussain	3,798	1,882	50	5,730	-	-	1,978	1,978
66	Khurram Ishaq Traders Jampur Road, Dera Ghazi Khan	Suhail Ishaq Khan	32102-5480181-1	M. Ishaq Khan	160	1,231	-	1,391	-	-	953	953
67	Pak Food 218-C, Saidpur Multan Road, Lahore	Muhammad Nasir Macbool	35202-2920775-3	Macbool Ahmed	2,300	785	-	3,085	-	-	641	641
68	Atif Corporation Flat # 84, A/I, Nawaz Court Block-16 Federal "B" Area, Karachi	Syed Asghar Ali, Prop	45504-0698507-1	Baber Ali Syed	992	669	85	1,746	509	669	52	1,230

For the year ended December 31, 2010

Statement showing written-off Loans or any other financial relief of five hundred thousand rupees or above provided during the year 2010 (refer note 10.5.3).

Sr. No	Name & Address of the Borrower	Name of Individuals/Partners/ Directors		Father's/Husband's Name	Outstanding Liabilities at Beginning of Year				Principal Written off	Interest/ Mark up Written off	Other Fin. Reliefs Provided	Total
		Name	NIC No.		Principal	Int/Acc/Mup	Others	Total				
69	Nasir Commission Shop Ghallaah Mandi, Bucheki	Mohammad Ashraf Mohammad Abbas	33104-2125569-3 33104-212557-7	Ghulam Rasool Mohammad Ashraf	2,964	751	-	3,715	-	751	-	751
70	Rafique Medical Hall Yaru Khel Road, Mohalla Eid Mianwali	Mohammad Rafique	38302-1172967-7	Ghulam Mohammad	400	140	-	540	400	140	-	540
71	Abdul Hameed Shahid Autos New Jail Road Chungi Amar Shedu, Lahore	Abdul Hameed	35201-9544706-3	M. Yousaf	464	60	-	524	214	77	219	510
72	Syed Qalbb e Abbas Sherazi Shop No 14, 15 Moti Plaza Muree Road, Rawalpindi	Syed Qalbb e Abbas Sherazi	37405-0615976-9	Syed Safeer Hussain Shah Sherazi	714	118	-	831	214	308	-	522
73	Abdul Rasheed Suit # 05 Mezanine Floor Poona Wala Tower Jamshed Road, Karachi	Abdul Rasheed	42301-5380243-9	Saleh Muhammad	3,319	1,196	-	4,515	1,319	2,154	-	3,473
74	Anoon Akram 1361/22, Main Double Road, Azam Basti, Karachi	Anoon Akram	42301-0753966-3	Akram	7,992	991	-	8,983	989	1,705	-	2,693
75	Sadia Moazam Plot # 15-C 2nd Floor Sunset Boulevard PH 2 DHA, Karachi	Sadia Moazam	35201-1247344-8	Asad Shoaib	19,058	3,023	-	22,081	558	3,239	663	4,460
76	Syeda Sultana Fahim B-2, First Floor Ali Centre Block No 13-C Gulshan e Iqbal	Syeda Sultana Fahim	42101-1624340-0	Syed Fahim Ahmed Gilani	19,044	3,071	-	22,116	2,529	5,957	-	8,486
Total					201,682	276,128	7,614	485,423	7,019	15,001	272,082	294,634

For the year ended December 31, 2010

Disposal of operating fixed assets (refer note 11.2.3)

Description	Cost/ revalued amount	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal/ settlement	Particulars of buyers	Location
(Rupees in '000)							
Furniture and fixture, electrical, computers and office equipment							
Items having book value in aggregate more than Rs. 250,000 or cost of more than Rs. 1,000,000	4,039	3,638	401	1,041	Auction	Karachi Auction Mart	Karachi
	1,600	1,370	230	67	Quotations	M/S Ghulam Mustaffa	–
	13,883	13,764	119	225	Quotations	M/S Abdul Razzaq & Brothers Kabaria	Lahore
	19,522	18,772	750	1,333			
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	6,743	4,845	1,898	2,109	Auction / Quotation	Different Buyers	All Pakistan
Vehicles							
Mercedes Benz	8,860	7,088	1,772	1,772	Bank Car Policy	Mr. Atif Aslam Bajwa	Lahore
Honda Accord	4,225	3,380	845	845	Bank Car Policy	Mr. Atif Aslam Bajwa	Lahore
Mercediez Benz	3,526	2,821	705	705	Bank Car Policy	Mr. Agha Saeed	Lahore
Mercediez Benz	3,526	2,821	705	705	Bank Car Policy	Mr. Ali Munir	Lahore
Toyota Hilux	2,160	2,160	–	1,500	Under Claim	M/S Adamjee Insurance	Insurance Claim
Honda Civic	1,563	521	1,042	1,042	Bank Car Policy	Mr. Atif Aslam Bajwa	Lahore
Honda Civic	1,429	495	934	933	Bank Car Policy	Mr. M.A Saleem	Lahore
Honda Civic	1,383	627	756	1,207	Auction	Mr. Khalid Mehmood	Lahore
Honda Civic	1,376	826	550	972	Auction	Mr. Khurram Imtiaz	Insurance Claim
Toyota Corola	1,365	200	1,165	1,389	Under Claim	M/S Adamjee Insurance	Insurance Claim
	29,413	20,939	8,474	11,070			
Other Vehicles having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	23,130	17,004	6,126	18,729			
2010	78,808	61,560	17,248	33,241			
2009	123,318	60,840	62,478	93,092			

For the year ended December 31, 2010

Summarized detail of the valuation of owned properties (refer note 11.2.1)

City	Land	Building	Total
	(Rupees in '000)		
Abbottabad	20,000	2,427	22,427
Bahawalpur	14,140	7,490	21,630
Chakwal	1,800	5,062	6,862
Chistian	13,200	1,260	14,460
Dera Gazi Khan	12,600	12,255	24,855
Dir	13,000	1,680	14,680
Faisalabad	486,286	141,939	628,225
Gawadar	450	—	450
Gujranwala	141,095	81,749	222,844
Gujrat	54,000	17,292	71,292
Hafizabad	32,000	4,402	36,402
Haripur	26,915	3,507	30,422
Haroonabad	14,640	1,980	16,620
Hyderabad	186,696	67,140	253,836
Islamabad	1,274,485	225,703	1,500,188
Jehlum	24,000	20,313	44,313
Jhang	19,625	2,218	21,843
Karachi	3,460,564	2,232,035	5,692,599
Kasur	14,040	1,434	15,474
Khanpur	19,033	7,218	26,251
Lahore	3,250,068	1,812,896	5,062,964
Larkana	27,420	5,197	32,617
Mianwali	14,375	16,780	31,155
Mirpur	57,352	8,635	65,987
Mirpurkhas	22,640	4,901	27,541
Multan	99,393	318,968	418,361
Muree	20,000	901	20,901
Muridke	30,000	3,234	33,234
Muzafarabad	57,235	7,993	65,228
Naushero Feroze	5,930	1,366	7,296
Okara	16,338	10,945	27,283
Peshawar	86,000	18,207	104,207
Quetta	276,760	31,082	307,842
Rahim Yar Khan	5,940	5,270	11,210
Rawalpindi	388,593	110,430	499,023
Sadiqabad	23,595	4,130	27,725
Sahiwal	14,720	10,753	25,473
Sargodha	74,147	16,205	90,352
Shahdadpur	4,850	756	5,606
Sheikhupura	40,000	8,606	48,606
Shujabad	6,400	3,250	9,650
Sialkot	40,000	10,313	50,313
Moro	8,500	2,150	10,650
Sukkur	35,920	12,853	48,773
Swat	46,600	4,568	51,168
Tando Allahyar	2,600	727	3,327
Vehari	5,555	1,637	7,192
Wazirabad	12,000	6,062	18,062
Overseas	—	54,026	54,026
Grand total	10,501,500	5,329,945	15,831,445

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MCB Bank Limited and Subsidiary Companies
Consolidated Financial Statements



Director's Report

on Consolidated Financial Statements

The Board of Directors present the report on consolidated financial statements of MCB Bank Limited and its subsidiaries namely MCB Asset Management Company Limited, MCB Financial Services Limited, MNET Services (Private) Limited, MCB Trade Services and "MCB Leasing" Closed Joint Stock Company for the year ended December 31, 2010.

The following appropriation of profit has been recommended by the Board of Directors:

	(Rs. in '000)
Profit before taxation	26,509,636
Taxation	9,637,510
	<hr/>
	16,872,126
Profit attributable to minority interest	1,893
	<hr/>
Profit attributable to ordinary share holders	16,874,019
Un-appropriated profit brought forward	17,821,670
Transfer from surplus on revaluation of fixed assets (net of tax)	21,879
	<hr/>
	17,843,549
Profit available for appropriation	34,717,568
Appropriations	
Statutory reserve	1,687,318
Final cash dividend– December 2009	2,418,877
Issue of bonus shares– December 2009	691,105
Interim dividend– March 2010	1,900,549
Interim dividend– June 2010	2,280,645
Interim dividend– September 2010	2,280,645
Total appropriations	11,259,139
	<hr/>
	23,458,429

Pattern of Shareholding

The pattern of shareholding as at December 31, 2010 is annexed in annual report.

Earnings per Share

The Consolidated financial statements reflect Rs.22.20 earning per share for the year under review.

On behalf of Directors



Mian Mohammad Mansha
Chairman

Dated: February 10, 2011

Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of MCB Bank Limited ("the Bank") and its subsidiary companies as at December 31, 2010 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. These consolidated financial statements include unaudited certified returns from the branches except for fifty branches which have been audited by us and seven branches audited by auditors abroad. We have also expressed separate opinions on the financial statements of MCB Bank Limited and MNET Services (Private) Limited. The financial statements of subsidiary companies MCB Financial Services Limited, MCB Asset Management Company Limited, MCB Trade Services Limited and "MCB Leasing" Closed Joint Stock Company were audited by another firm of auditors, whose report has been furnished to us and our opinion, in so far as it relates to the amounts included for such companies, is based solely on the report of such other auditors.

These consolidated financial statements are responsibility of the Bank's management. Our responsibility is to express our opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly the financial position of MCB Bank Limited as at December 31, 2010 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Lahore
February 10, 2011

KPMG Taseer Hadi & Co.
Chartered Accountants
Farid ud Din Ahmed

Consolidated Statement of Financial Position

As at December 31, 2010

	Note	2010	2009
		(Rupees in '000)	
Assets			
Cash and balances with treasury banks	6	45,407,264	38,774,871
Balances with other banks	7	1,551,518	6,077,354
Lendings to financial institutions	8	4,401,781	3,000,000
Investments – net	9	215,747,844	169,484,647
Advances – net	10	254,565,471	253,248,265
Operating fixed assets	11	21,061,787	18,099,010
Deferred tax assets – net		–	–
Other assets – net	12	27,746,198	23,057,731
		570,481,863	511,741,878
Liabilities			
Bills payable	14	10,265,537	8,201,090
Borrowings	15	25,684,593	44,662,088
Deposits and other accounts	16	431,295,499	367,581,075
Sub-ordinated loan		–	–
Liabilities against assets subject to finance lease		–	–
Deferred tax liabilities – net	17	5,146,733	3,201,756
Other liabilities	18	16,090,374	15,782,589
		488,482,736	439,428,598
Net assets		81,999,127	72,313,280
Represented by:			
Share capital	19	7,602,150	6,911,045
Reserves	20	40,164,526	38,387,656
Unappropriated profit		23,458,429	17,821,670
		71,225,105	63,120,371
Minority interest		2,698	71
		71,227,803	63,120,442
Surplus on revaluation of assets – net of tax	21	10,771,324	9,192,838
		81,999,127	72,313,280
Contingencies and commitments	22		

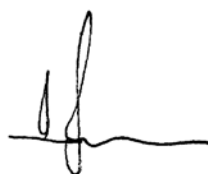
The annexed notes 1 to 46 and Annexures I to III form an integral part of these consolidated financial statements.



M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Mohammed Hussein
Director



Mian Umer Mansha
Director

Consolidated Profit and Loss Account

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
Mark-up / return / interest earned	24	54,829,365	51,621,911
Mark-up / return / interest expensed	25	18,027,372	15,835,581
Net mark-up / interest income		36,801,993	35,786,330
Provision for diminution in the value of investments – net	9.3	444,476	1,484,218
Provision against loans and advances – net	10.4.2	3,100,594	5,796,527
Bad debts written off directly	10.5.1	52,047	41,576
		3,597,117	7,322,321
Net mark-up / interest income after provisions		33,204,876	28,464,009
Non-mark-up / interest income			
Fee, commission and brokerage income		4,133,109	3,461,374
Income earned as trustee to various funds		22,714	18,029
Dividend income		450,492	342,132
Income from dealing in foreign currencies		632,819	341,403
Gain on sale of securities – net	26	410,618	806,388
Unrealized gain on revaluation of investments classified as held for trading		40,832	11,510
Other income	27	751,058	774,017
Total non-mark-up / interest income		6,441,642	5,754,853
		39,646,518	34,218,862
Non-mark-up / interest expenses			
Administrative expenses	28	12,327,496	10,235,366
Other provision – net	12.3	88,261	142,824
Other charges	29	990,638	691,722
Total non-mark-up / interest expenses		13,406,395	11,069,912
Share of profit of associated undertaking	9.7	269,513	200,196
Extra ordinary / unusual item		–	–
Profit before taxation		26,509,636	23,349,146
Taxation – Current year		8,053,368	7,725,787
– Prior years		–	(2,232,933)
– Deferred		1,554,809	2,190,425
Share of tax of associated undertaking		29,333	464
	30	9,637,510	7,683,743
Profit after taxation		16,872,126	15,665,403
Loss / (profit) attributable to minority interest		1,893	(4)
Profit attributable to ordinary share holders		16,874,019	15,665,399
Unappropriated profit brought forward		17,821,670	11,065,723
Transfer from surplus on revaluation of fixed assets – net of tax		21,879	22,374
		17,843,549	11,088,097
Profit available for appropriation		34,717,568	26,753,496
(Rupees)			
Basic and diluted earnings per share – after tax	33	22.20	20.61

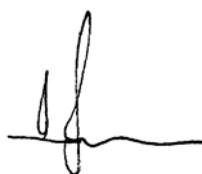
The annexed notes 1 to 46 and Annexures I to III form an integral part of these consolidated financial statements.



M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Mohammed Hussein
Director



Mian Umer Mansha
Director

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2010

	2010 (Rupees in '000)	2009
Profit after tax for the year	16,872,126	15,665,403
Other comprehensive income		
Effect of translation of net investment in foreign branches and subsidiaries		
– Equity shareholders of the Bank	89,552	65,805
– Minority interest	70	–
	89,622	65,805
Comprehensive income transferred to equity	16,961,748	15,731,208
Components of comprehensive income not reflected in equity		
Net change in fair value of available for sale securities	216,561	3,068,752
Deferred tax	(74,473)	(571,913)
	142,088	2,496,839
Total comprehensive income for the year	17,103,836	18,228,047

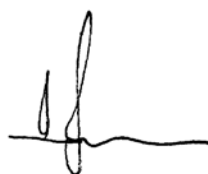
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Consolidated Cash Flow Statement

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
Cash flows from operating activities			
Profit before taxation		26,509,636	23,349,146
Less: Dividend income and share of profit from associate		(720,005)	(542,328)
		25,789,631	22,806,818
Adjustments for non-cash charges:			
Depreciation	11.2	1,024,200	917,648
Amortization	11.3	162,154	154,977
Provision against loans and advances – net	10.4.2	3,100,594	5,796,527
Provision for diminution in the value of investments – net	9.3	444,476	1,484,218
Provision against other assets – net	12.3	88,261	142,824
Bad debts written off directly	10.5.1	52,047	41,576
Operating fixed assets written off	29	–	17,477
Gain on disposal of fixed assets – net	27	(16,961)	(30,614)
Unrealized gain on revaluation of 'held for trading' securities	9.5	(40,832)	(11,510)
		4,813,939	8,513,122
		30,603,570	31,319,940
(Increase) / decrease in operating assets			
Lendings to financial institutions		(1,401,781)	1,100,079
Net investments in 'held for trading' securities		(16,532)	103,186
Advances – net		(4,469,847)	3,047,462
Other assets – net		(2,253,702)	(3,410,586)
		(8,141,862)	840,141
Increase / (decrease) in operating liabilities			
Bills payable		2,064,447	(2,350,378)
Borrowings		(18,977,495)	21,998,248
Deposits and other accounts		63,714,424	37,428,526
Other liabilities		1,084,053	(6,670,830)
		47,885,429	50,405,566
		70,347,137	82,565,647
Income tax paid		(11,692,657)	(4,351,598)
Net cash flows from operating activities		58,654,480	78,214,049
Cash flows from investing activities			
Net investments in 'available for sale' securities		(47,515,913)	(72,302,447)
Net investments in 'held to maturity' securities		1,445,720	3,303,107
Proceeds from issue of shares to minority interest		4,450	–
Dividends received		562,545	407,489
Investments in operating fixed assets		(2,601,076)	(1,931,105)
Sale proceeds of property and equipment disposed off		34,276	93,092
Net cash flows from investing activities		(48,069,998)	(70,429,864)
Cash flows from financing activities			
Dividend paid		(8,567,547)	(6,735,510)
Net cash flows from financing activities		(8,567,547)	(6,735,510)
Exchange differences on translation of the net investment in foreign branches and subsidiaries		89,622	65,805
Increase in cash and cash equivalents		2,106,557	1,114,480
Cash and cash equivalents at beginning of the year		44,792,697	43,096,052
Effects of exchange rate changes on cash and cash equivalents		59,528	641,693
		44,852,225	43,737,745
Cash and cash equivalents at end of the year	34	46,958,782	44,852,225

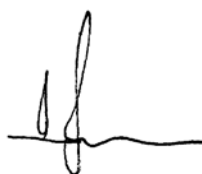
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Consolidated Statement of Changes in Equity

For the year ended December 31, 2010

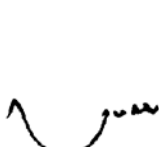
	Attributable to shareholders of the bank							Minority Interest	Total
	Share capital	Capital reserves		Statutory reserve	Revenue reserves		Subtotal		
		Share premium	Exchange translation reserve		General reserve	Unappropriated profit			
(Rs. in '000)									
Balance as at December 31, 2008	6,282,768	9,702,528	192,242	8,277,551	18,600,000	11,065,723	54,120,812	69	54,120,881
Changes in equity for 2009									
Profit after taxation for the year ended December 31, 2009	-	-	-	-	-	15,665,403	15,665,403	-	15,665,403
Profit attributable to minority interest	-	-	-	-	-	(4)	(4)	4	-
Profit after taxation for the year ended December 31, 2009 attributable to ordinary shareholders of the group	-	-	-	-	-	15,665,399	15,665,399	4	15,665,403
Exchange differences on translation of net investment in foreign branches and subsidiaries	-	-	65,805	-	-	-	65,805	-	65,805
Total comprehensive income for the year ended December 31, 2009	-	-	65,805	-	-	15,665,399	15,731,204	4	15,731,208
Transferred from surplus on revaluation of fixed assets to unappropriated profit – net of tax	-	-	-	-	-	22,374	22,374	-	22,374
Transferred to statutory reserve	-	-	-	1,549,530	-	(1,549,530)	-	-	-
Dividend attributable to minority shareholders	-	-	-	-	-	-	-	(2)	(2)
Issue of bonus shares – December 2008	628,277	-	-	-	-	(628,277)	-	-	-
Final cash dividend – December 2008	-	-	-	-	-	(1,570,692)	(1,570,692)	-	(1,570,692)
Interim cash dividend – March 2009	-	-	-	-	-	(1,727,781)	(1,727,781)	-	(1,727,781)
Interim cash dividend – June 2009	-	-	-	-	-	(1,727,773)	(1,727,773)	-	(1,727,773)
Interim cash dividend – September 2009	-	-	-	-	-	(1,727,773)	(1,727,773)	-	(1,727,773)
Balance as at December 31, 2009	6,911,045	9,702,528	258,047	9,827,081	18,600,000	17,821,670	63,120,371	71	63,120,442
Changes in equity for 2010									
Profit after taxation for the year ended December 31, 2010	-	-	-	-	-	16,872,126	16,872,126	-	16,872,126
Loss attributable to minority interest	-	-	-	-	-	1,893	1,893	(1,893)	-
Profit after taxation for the year ended December 31, 2010 attributable to ordinary shareholders of the group	-	-	-	-	-	16,874,019	16,874,019	(1,893)	16,872,126
Exchange differences on translation of net investment in foreign branches and subsidiaries	-	-	89,552	-	-	-	89,552	70	89,622
Total comprehensive income for the year ended December 31, 2010	-	-	89,552	-	-	16,874,019	16,963,571	(1,823)	16,961,748
Transferred from surplus on revaluation of fixed assets to unappropriated profit – net of tax	-	-	-	-	-	21,879	21,879	-	21,879
Share of capital attributable to minority shareholders	-	-	-	-	-	-	-	4,450	4,450
Transferred to statutory reserve	-	-	-	1,687,318	-	(1,687,318)	-	-	-
Issue of bonus shares – December 2009	691,105	-	-	-	-	(691,105)	-	-	-
Final cash dividend – December 2009	-	-	-	-	-	(2,418,877)	(2,418,877)	-	(2,418,877)
Interim cash dividend – March 2010	-	-	-	-	-	(1,900,549)	(1,900,549)	-	(1,900,549)
Interim cash dividend – June 2010	-	-	-	-	-	(2,280,645)	(2,280,645)	-	(2,280,645)
Interim cash dividend – September 2010	-	-	-	-	-	(2,280,645)	(2,280,645)	-	(2,280,645)
Balance as at December 31, 2010	7,602,150	9,702,528	347,599	11,514,399	18,600,000	23,458,429	71,225,105	2,698	71,227,803

For details of dividend declaration and appropriations, refer note 45 to these consolidated financial statements.

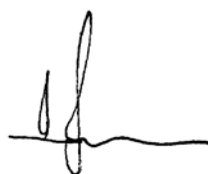
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Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

1. THE GROUP AND ITS OPERATIONS

The "Group" consists of:

Holding company

- MCB Bank Limited

Subsidiary companies

Percentage
holding of
MCB Bank
Limited
%

– MCB Financial Services Limited	99.999
– MNET Services (Private) Limited	99.950
– MCB Trade Services Limited	100.000
– MCB Asset Management Company Limited	99.990
– "MCB Leasing" Closed Joint Stock Company	95.000

MCB Bank Limited (holding company)

MCB Bank Limited (the 'Bank') is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The Bank's ordinary shares are listed on all the stock exchanges in Pakistan whereas its Global Depository Receipts (GDRs) representing two ordinary shares (2009: two ordinary shares) are traded on the International Order Book (IOB) system of the London Stock Exchange. The Bank's Registered Office and Principal Office are situated at MCB Building, Jinnah Avenue, Islamabad and MCB -15 Main Gulberg, Lahore, respectively. The Bank operates 1,125 branches including 14 Islamic banking branches (2009: 1,074 branches including 11 Islamic banking branches) within Pakistan and 7 branches (2009: 7 branches) outside the country (including the Karachi Export Processing Zone branch).

MCB Financial Services Limited (subsidiary company)

The company was incorporated on February 12, 1992 under the Companies Ordinance, 1984 as a private limited company. The principal object of the company is to float, administer and manage modaraba funds and modarabas under Modaraba Companies & Modaraba (Floatation and Control) Ordinance 1980. The company's registered office is situated at 16th Floor, MCB Tower, I.I. Chundrigar Road, Karachi.

The company also acts as a trustee of certain mutual funds.

MNET Services (Private) Limited (subsidiary company)

MNET Services (Private) Limited is a private limited company incorporated in Pakistan under the Companies Ordinance, 1984 on September 7, 2001. The company's registered office and principal place of business are situated at MCB Building, F-6 / G-6, Jinnah Avenue, Islamabad and Sheikh Sultan Trust

Building, Beaumont Road, Karachi respectively. The core objective of the company is to provide services in Information Technology and to develop computer software and other data processing equipment for planning, designing, management and execution of all types of financial, personal, organizational and institutional activities.

MCB Trade Services Limited (subsidiary company)

The company was incorporated under the laws of Hong Kong on February 25, 2005. The registered office of the company is located at 28 / F, BEA Harbour View Centre 56 Gloucester Road, Wan Chai, Hong Kong.

The principal activity of the company is to provide agency services.

MCB Asset Management Company Limited (subsidiary company)

The company was incorporated in Pakistan under the Companies Ordinance 1984 on September 14, 2005 as a public limited company. The registered office and principal place of business of the company is located at 8th Floor, Technocity, Corporate Tower, Hasrat Mohani Road, Karachi.

The company is registered as an asset management company under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 to carry on the business of an asset management company under the said rules.

The principal activity of the company includes asset management, investment advisory, portfolio management, equity research and underwriting.

"MCB Leasing" Closed Joint Stock Company (subsidiary company)

The company was incorporated as a Closed Joint Stock Company under the laws of Azerbaijan on October 16, 2009 with 95% holding of MCB Bank Limited (a parent company). The registered office of the company is located at 49B Moscow Ave. Baku AZ1065, Republic of Azerbaijan.

The Company's principal business activity is providing lease finance within the Republic of Azerbaijan. The company leases various types of industrial equipment, equipment used in medical, public transports and real estate. In addition, the Company leases cars, trucks and rail cars. The company purchases leasing assets from suppliers in the Republic of Azerbaijan and abroad.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

2. BASIS OF PRESENTATION

- 2.1** These consolidated financial statements include the financial statements of MCB Bank Limited and its subsidiary companies and associates.
- 2.2** In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.
- 2.3** The financial results of the Islamic Banking branches have been consolidated in these financial statements for reporting purposes, after eliminating material inter-branch transactions / balances. Key financial figures of the Islamic Banking branches are disclosed in Annexure II of unconsolidated financial statements.
- 2.4** For the purpose of translation, rates of Rs. 85.6367 per US Dollar (2009: Rs. 84.2416) and Rs. 0.7718 per LKR (2009: Rs.0.7364) have been used.

3. STATEMENT OF COMPLIANCE

- 3.1** These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved Accounting Standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962. In case requirements differ, the provisions and directives given in Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 shall prevail.

The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. The Securities and Exchange Commission of Pakistan (SECP) has deferred applicability of

IFRS-7 "Financial Instruments: Disclosures" on banks through S.R.O 411(1) /2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

3.2 Standards, amendments and interpretations to published approved accounting standards that are not relevant and not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2011. These standards are either not relevant to the Group's operations or are not expected to have a significant impact on the Group's financial statements other than increase in disclosures in certain cases:

- Amendment to IAS-32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 01, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Group's financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 01, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on Group's financial statements.
- IAS 24 – Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after January 01, 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

annual periods beginning on or after January 01, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Group's financial statements.

- Improvements to IFRSs 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 1, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.
- Amendments to IFRS 7 – Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after July 1, 2011). The amendments introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. This amendment has no impact on Group's financial statements.

4. BASIS OF MEASUREMENT

- 4.1** These financial statements have been prepared under the historical cost convention except that certain classes of fixed assets are stated at revalued amounts and certain investments, commitments in respect of certain forward exchange contracts and derivative financial instruments have been marked to market and are carried at fair value.
- 4.2** The financial statements are presented in Pak Rupees, which is the Group's functional and presentation currency. The amounts are rounded off to the nearest thousand.

4.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Group's accounting policies. Estimates and judgments are continually evaluated and are based on historical experiences, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Group's financial statements or where judgment was exercised in the application of accounting policies are as follows:

a) Classification of investments

- In classifying investments as 'held for trading', the Group has determined securities which are acquired with an intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.
- In classifying investments as 'held to maturity', the Group follows the guidance provided in SBP circulars on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Group evaluates its intention and ability to hold such investment to maturity.
- The investments which are not classified as 'held for trading' or 'held to maturity' are classified as 'available for sale'.

b) Provision against advances

The Group reviews its loan portfolio to assess the amount of non-performing advances and provision required there against on regular basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrowers and the requirements of the Prudential Regulations are considered.

The amount of general provision is determined in accordance with the relevant regulations and management's judgment as explained in notes 10.4.3 and 10.4.5.

c) Impairment of 'available for sale' equity investments

The Group determines that 'available for sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of the investee and sector performance, changes in technology and operational/financial cash flows.

d) Taxation

In making the estimates for income taxes currently payable by the Group, the management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past.

e) Fair value of derivatives

The fair values of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates at the statement of financial position date and the rates contracted.

f) Depreciation, amortization and revaluation of operating fixed assets

In making estimates of the depreciation / amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Group. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the changed pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Further, the Group estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers under the market conditions.

g) Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in these financial statements (note 36) for the actuarial valuation of staff retirement benefit plans. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may affect the liability / asset under these plans in those years.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Basis of consolidation

- a) The consolidated financial statements include the financial statements of MCB Bank Limited and its subsidiary companies and share of the profit / reserves of an associate accounted for under the equity basis of accounting.
- b) Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date when control ceases / the subsidiaries disposed off. The assets and liabilities of subsidiary companies have been consolidated on a line by line basis based on the financial statements as at December 31, 2010 and the carrying value of investments held by the Bank is eliminated against the subsidiaries' shareholders' equity in these consolidated financial statements. Material intra-Group balances and transactions have been eliminated.
- c) Associates are all entities over which the Group has significant influence but not control. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost, thereafter for the post-acquisition change in the Group's share of net assets of the associate, the cumulative post-acquisition movements are adjusted in the carrying amount of the investment. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group. The Group's share in an associate has been accounted for on the basis of the financial statements for the year ended December 31, 2010.
- d) Minority interest is that part of the net results of operations and of net assets of subsidiary companies attributable to interests which are not owned by the Group.

5.2 Investments

The Group classifies its investments as follows:

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

a) Held for trading

These are securities, which are either acquired for generating profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity in respect of which the Group has the positive intent and ability to hold to maturity.

c) Available for sale

These are investments, other than those in subsidiaries and associates, that do not fall under the 'held for trading' or 'held to maturity' categories.

Investments are initially recognized at cost which in case of investments other than 'held for trading' include transaction costs associated with the investment.

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognized at the trade date. Trade date is the date on which the Group commits to purchase or sell the investment.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than those classified as 'held to maturity', investments in subsidiaries and investments in associates are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the statement of financial position below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account currently.

Unquoted equity securities (excluding investments in subsidiaries and associates) are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments classified as 'held to maturity' are carried at amortized cost.

Provision for impairment in the values of securities (except debentures, participation term certificates and term finance certificates) is made currently. Provisions for impairment in value of debentures, participation term certificates and term finance certificates are made as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired associate at the date of acquisition. Goodwill on acquisitions of associates is included in 'investments in associates'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an associate include the carrying amount of goodwill relating to the associate sold.

5.3 Sale and repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. Securities purchased under an agreement to resell (reverse repo) are not recognized in the financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. The difference between the purchase / sale and re-sale / re-purchase price is recognized as mark-up income / expense on a time proportion basis, as the case may be.

5.4 Advances

Advances are stated net of specific and general provisions. Specific provision is determined on the basis of the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against consumer loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on advances. Advances are written off when there is no realistic prospect of recovery.

Leases where the Group transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as financial leases. A receivable is recognized at an amount equal to the present value of the lease payments including any

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

guaranteed residual value. Finance lease receivables are included in advances to the customers.

5.5 Operating fixed assets and depreciation

Property and equipment, other than land carrying value of which is not amortized, are stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses (if any). Land is carried at revalued amount. Capital work-in-progress is stated at cost less accumulated impairment losses (if any). Cost of property and equipment of foreign operations includes exchange differences arising on currency translation at year-end rates.

Depreciation on all operating fixed assets is charged using the diminishing balance method except for vehicles, computers, carpets and buildings which are depreciated using the straight line method in accordance with the rates specified in note 11.2 to these financial statements and after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each statement of financial position date.

Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

Surplus on revaluation of land and buildings is credited to the surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

Gains / losses on sale of property and equipment are credited / charged to the profit and loss account currently, except that the related surplus on revaluation of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account.

5.5.1 Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized from the month when these assets are available for use, using the straight line method, whereby the cost of the intangible assets are amortized over its estimated useful lives over which economic benefits are expected to flow to the Group. The useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date.

5.5.2 Leased (Ijarah)

Assets leased out under 'Ijarah' are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Assets under Ijarah are depreciated over the period of lease term. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of the asset using straight line basis.

Ijarah income is recognized on an accrual basis as and when the rental becomes due.

5.6 Impairment

The carrying amount of assets are reviewed at each statement of financial position date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. Recoverable amount is the greater of net selling price and value in use. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

5.7 Staff retirement benefits

MCB Bank Limited (holding company)

The Bank operates the following staff retirement benefits for its employees:

- a) For clerical / non-clerical staff who did not opt for the new scheme, the Bank operates the following:
 - an approved contributory provident fund;
 - an approved gratuity scheme; and
 - a contributory benevolent scheme

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

b) For clerical / non-clerical staff who joined the Bank after the introduction of the new scheme and for others who opted for the new scheme introduced in 1975, the Bank operates the following:

- an approved non-contributory provident fund introduced in lieu of the contributory provident fund;
- an approved pension fund; and
- contributory benevolent scheme

c) For officers who joined the Bank after the introduction of the new scheme and for others who opted for the new scheme introduced in 1977, the Bank operates the following:

- an approved non-contributory provident fund introduced in lieu of the contributory provident fund; and
- an approved pension fund.

However, the management has replaced the pension benefits for employees in the officer category with a contributory provident fund for services rendered after December 31, 2003.

d) For executives and officers who joined the Bank on or after January 01, 2000 the Bank operates an approved contributory provident fund.

e) Post retirement medical benefits to entitled employees.

Annual contributions towards the defined benefit plans and schemes are made on the basis of actuarial advice using the projected unit credit method. The above benefits are payable to staff at the time of separation from the Bank's services subject to the completion of qualifying period of service. The net cumulative actuarial gains / losses at each statement of financial position date are recognized equally over a period of three years or the expected remaining average working lives of employees, whichever is lower.

Past service cost resulting from changes to defined benefit plans to the extent the benefits are already vested is recognized immediately and the remaining unrecognized past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested.

MNET Services (Private) Limited (subsidiary company)

The company operates an unfunded gratuity scheme for its eligible employees. Minimum qualifying period for entitlement to gratuity is five years continuous service with the Company. Accrual of charge for the year is made on the basis of actuarial valuations carried out under the projected unit credit method. Actuarial gains and losses are amortized over the expected future service of employees to the extent of the greater of ten percent of the present value of the defined benefit obligations at that date.

5.8 Employees' compensated absences

MCB Bank Limited (holding company)

Liability in respect of employees' compensated absences is accounted for in the year in which these are earned on the basis of actuarial valuation carried out using the Projected Unit Credit Method. Actuarial gains or losses if any, are recognized immediately.

5.9 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration available tax credits and rebates. The charge for current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalized during the year.

Deferred

Deferred tax is recognised using the statement of financial position liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The Group records deferred tax assets / liabilities using the tax rates, enacted or substantively enacted by the statement of financial position date expected to be applicable at the time of its reversal. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The Group also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities and deferred tax liability on surplus on revaluation of fixed assets which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS) 12, 'Income Taxes'.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

Deferred tax liability is not recognized in respect of taxable temporary differences associated with exchange translation reserves of foreign operations, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

5.10 Provisions

Provisions are recognized when the Group has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimates.

5.11 Foreign currencies

5.11.1 Foreign currency transactions

Transactions in foreign currencies (other than the results of foreign operations discussed in note 5.10.2) are translated to Rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in Rupee terms at the rates of exchange prevailing at the statement of financial position date. Foreign bills purchased and forward foreign exchange contracts other than those relating to foreign currency deposits are valued at the rates applicable to their respective maturities.

5.11.2 Foreign operations

The assets and liabilities of foreign branches are translated to Rupees at exchange rates prevailing at the statement of financial position date. The results of foreign operations are translated to Rupees at the average rate of exchange for the year.

5.11.3 Translation gains and losses

Translation gains and losses are included in the profit and loss account, except those arising on the translation of the Group's net investment in foreign branches and subsidiaries which are taken to the capital reserve (exchange translation reserve).

5.11.4 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in these consolidated financial statements at committed amounts. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Rupee terms at the rates of exchange ruling on the statement of financial position date.

5.12 Revenue recognition

- Mark-up / interest on advances and returns on investments are recognized on a time proportion basis using the effective interest method except that mark-up / interest on non-performing advances and investments is recognized on a receipt basis, in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan (SBP) or as permitted by the regulations of the overseas regulatory authorities of the countries where the branches operate.
- Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gains / losses on termination of lease contracts are recognized as income when these are realized.
- Unrealized lease income is held in suspense account, where necessary, in accordance with the requirements of SBP or overseas regulatory authorities of the country where the foreign branches of the Bank operate.
- Commission income is recognized on a time proportion basis.
- Dividend income is recognized when the Group's right to receive dividend is established.
- Gain / loss on sale of investments is credited / charged to profit and loss account currently.
- Outsourcing and networking service revenue is recognized on an accrual basis.
- Revenue for acting as trustee is recognized on net asset value (NAV) of respective funds.
- Commission income is recognized at the time of sale of units by the Asset Management Company.

5.13 Operating leases

Operating lease rentals are recorded in profit and loss account on a time proportion basis over the term of the lease arrangements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

5.14 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks in current and deposit accounts.

5.15 Financial instruments

5.15.1 Financial assets and financial liabilities

Financial instruments carried on the statement of financial position include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments (excluding investment in associates and subsidiaries), advances, other assets, bills payable, borrowings, deposits and other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

5.15.2 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value using valuation techniques. All the derivative financial instruments are carried as an asset when the fair value is positive and liability when the fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account currently.

5.15.3 Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the Group intends either to settle on a net basis, or to realize the assets and settle the liabilities, simultaneously.

5.16 Share issuance cost

Share issuance cost directly attributable to issuance of shares, is recognized as deduction from the share premium account.

5.17 Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format of reporting is based on business segments.

5.17.1 Business segments

Corporate Finance

Corporate Finance includes underwriting, securitization, investment banking, syndications, IPO related activities (excluding investments) and secondary private placements.

Trading and Sales

It includes fixed income, equity, foreign exchange commodities, lendings to financial institutions and brokerage debt.

Retail and Consumer Banking

It includes retail lending and deposits, banking services, private lending and deposits, banking services and retail offered to its retail customers and small and medium enterprises.

Commercial Banking

It includes project finance, export finance, trade finance, leasing, lending, guarantees and bills of exchange relating to its corporate customers.

Asset Management

It includes asset management, investment advisory, portfolio management, equity research and underwriting.

5.17.2 Geographical segments

The Group operates in four geographic regions being:

- Pakistan
- Asia Pacific (including South Asia)
- Middle East
- Eurasia

5.18 Dividend distribution and appropriation

Dividends (including bonus dividend) and other appropriations (except appropriations which are required by law) are recognized in the period in which these are approved.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand – local currency	6.1	9,103,263	9,104,489
– foreign currencies		1,539,991	1,059,928
With State Bank of Pakistan (SBP) in:			
Local currency current account	6.2	20,062,585	17,221,148
Foreign currency current account	6.3	34,673	7,464
Foreign currency deposit account	6.2 & 6.4	3,966,291	3,363,399
With other central banks in foreign currency current account	6.2	329,632	324,287
With National Bank of Pakistan in local currency current account		10,370,829	7,694,156
		<u>45,407,264</u>	<u>38,774,871</u>

6.1 This includes national prize bonds amounting to Rs. 67.097 million (2009: Rs. 80.591 million).

6.2 Deposits with SBP are maintained to comply with their requirements issued from time to time. Deposits with other central banks are maintained to meet their minimum cash reserves and capital requirements pertaining to the foreign branches of the Bank.

6.3 This represents US Dollar settlement account maintained with SBP.

6.4 This includes balance of Rs. 2,974.718 million (2009: Rs. 2,522.549 million) which carry interest rate of 0% per annum (2009: 0% per annum) as declared by SBP.

	Note	2010 (Rupees in '000)	2009
7. BALANCES WITH OTHER BANKS			
Inside Pakistan			
– deposit account		72,949	67,361
Outside Pakistan			
– current account		1,074,315	5,059,663
– deposit account	7.1	404,254	950,330
		<u>1,551,518</u>	<u>6,077,354</u>

7.1 Balances with other banks outside Pakistan in deposit account carry interest at the rates ranging from 0.55% to 3% (2009: 0.12% to 1% per annum).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings	8.2	1,500,000	3,000,000
Repurchase agreement lendings	8.3	2,901,781	–
		<u>4,401,781</u>	<u>3,000,000</u>
8.1 Particulars of lendings			
In local currency		4,391,754	3,000,000
In foreign currencies		10,027	–
		<u>4,401,781</u>	<u>3,000,000</u>

8.2 These carry mark-up rates ranging from 12.80% to 13.50% per annum (2009: 12.35% to 12.70% per annum) and are due to mature latest by March 2011.

8.3 Securities held as collateral against lendings to financial institutions

	2010			2009		
	Held by group	Further given as collateral	Total	Held by group	Further given as collateral	Total
	(Rupees in '000)					
Market Treasury Bills	922,947	–	922,947	–	–	–
Pakistan Investment Bonds	1,978,834	–	1,978,834	–	–	–
	<u>2,901,781</u>	<u>–</u>	<u>2,901,781</u>	<u>–</u>	<u>–</u>	<u>–</u>

Market value of securities held as collateral against lendings to financial institutions as at December 31, 2010 amounted to Rs. 2,922.541 million (2009: NIL). These carry mark up rates ranging from 12.80% to 12.85% per annum (2009: NIL).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

9. INVESTMENTS – NET

9.1 Investments by types

Note / Annexure	2010			2009		
	Held by group	Given as collateral	Total	Held by group	Given as collateral	Total
	(Rupees in '000)					
Held for trading securities						
– Units in open ended mutual funds	9.5 & Annexure I (note 2)					
	348,530	–	348,530	320,488	–	320,488
	348,530	–	348,530	320,488	–	320,488
Available-for-sale securities						
– Market Treasury Bills	9.4					
	174,114,758	11,840,440	185,955,198	108,056,249	31,513,525	139,569,774
– Pakistan Investment Bonds	9.4					
	4,764,252	–	4,764,252	5,454,941	–	5,454,941
– Shares in listed companies	9.4 & Annexure I (note 1)					
	6,680,635	–	6,680,635	7,133,214	–	7,133,214
– Units in open ended mutual fund	9.4 & Annexure I (note 1)					
	182,981	–	182,981	442,981	–	442,981
– Shares in unlisted companies	9.4 & Annexure I (note 3)					
	523,915	–	523,915	513,843	–	513,843
– NIT units						
	5,253	–	5,253	5,253	–	5,253
– Sukuk Bonds	9.4 & Annexure I (note 4)					
	2,100,000	–	2,100,000	400,000	–	400,000
– Term Finance Certificates (TFCs)	9.4 & Annexure I (note 4)					
	1,672,200	–	1,672,200	1,831,777	–	1,831,777
	190,043,994	11,840,440	201,884,434	123,838,258	31,513,525	155,351,783
Held-to-maturity securities						
– Market Treasury Bills	9.6					
	3,155,635	–	3,155,635	3,251,110	136,038	3,387,148
– Pakistan Investment Bonds	9.6					
	2,172,165	–	2,172,165	2,244,383	–	2,244,383
– Federal Government Securities						
	–	–	–	171,583	–	171,583
– Provincial Government Securities						
	118	–	118	118	–	118
– Government Compensation Bonds						
	–	–	–	286,557	–	286,557
– Sukuk Bonds	Annexure I (note 5)					
	1,427,762	–	1,427,762	2,753,929	–	2,753,929
– Euro Bonds	Annexure I (note 5)					
	1,446,590	–	1,446,590	684,810	–	684,810
– Term Finance Certificates (TFCs), Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 4)					
	4,099,810	–	4,099,810	4,250,714	–	4,250,714
	12,302,080	–	12,302,080	13,643,204	136,038	13,779,242
Associates	Annexure I (note 6)					
Adamjee Insurance Company Limited	9.7					
	3,703,265	–	3,703,265	3,339,710	–	3,339,710
First Women Bank Limited	9.12					
	63,300	–	63,300	63,300	–	63,300
	3,766,565	–	3,766,565	3,403,010	–	3,403,010
Investments at cost						
	206,461,169	11,840,440	218,301,609	141,204,960	31,649,563	172,854,523
Less: Provision for diminution in value of investments	9.3					
	(3,116,292)	–	(3,116,292)	(3,686,520)	–	(3,686,520)
Investments (net of provisions)						
	203,344,877	11,840,440	215,185,317	137,518,440	31,649,563	169,168,003
Surplus / (deficit) on revaluation of available for sale securities – net	21.2					
	534,095	(12,400)	521,695	331,588	(26,454)	305,134
Surplus on revaluation of 'held for trading' securities – net	9.5					
	40,832	–	40,832	11,510	–	11,510
Investments at revalued amounts – net of provisions						
	203,919,804	11,828,040	215,747,844	137,861,538	31,623,109	169,484,647

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Note / Annexure	2010 (Rupees in '000)	2009
9.2 Investments by segments			
Federal Government Securities:			
– Market Treasury Bills	9.4	185,955,198	139,569,774
– Pakistan Investment Bonds	9.4	6,936,417	7,699,324
– Federal Government Securities		–	171,583
– Government Compensation Bonds		–	286,557
– Euro Bonds	Annexure I (note 5)	1,446,590	684,810
– Sukuk Bonds	Annexure I (note 4 & 5)	2,500,000	1,503,702
– Unlisted Term Finance Certificate	Annexure I (note 4)	2,250,000	3,000,000
Overseas Government Securities:			
– Market Treasury Bills – Sri Lanka		3,155,635	3,387,148
Provincial Government Securities		118	118
Associated Undertakings	9.7 & Annexure I (note 6)	3,766,565	3,403,010
Fully Paid-up Ordinary Shares / Certificates / Units:			
– Listed companies / mutual funds / modarabas	Annexure I (note 1)	6,619,033	7,071,612
– Unlisted companies / funds	Annexure I (note 3)	423,915	413,843
Units of Open Ended Mutual Funds	Annexure I (note 1 & 2)	531,511	763,469
Fully Paid-up Preference Shares:			
– Listed Companies	Annexure I (note 1)	61,602	61,602
– Unlisted Companies	Annexure I (note 3)	100,000	100,000
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
– Listed Term Finance Certificates	Annexure I (note 4)	1,672,200	1,831,777
– Unlisted Term Finance Certificates	Annexure I (note 4)	1,758,446	1,129,096
– Debentures, Bonds and Participation Term Certificates (PTCs)	Annexure I (note 5)	91,364	121,618
Other Investments:			
– Sukuk Bonds	Annexure I (note 5)	1,027,762	1,650,227
– NIT Units		5,253	5,253
Total investments at cost		218,301,609	172,854,523
Less: Provision for diminution in the value of investments	9.3	(3,116,292)	(3,686,520)
Investments (net of provisions)		215,185,317	169,168,003
Surplus on revaluation of available for sale securities – net	21.2	521,695	305,134
Surplus on revaluation of held for trading securities – net	9.5	40,832	11,510
Investments at revalued amounts – net of provisions		215,747,844	169,484,647

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	2010	2009
	(Rupees in '000)	
9.3 Particulars of provision		
Opening balance	3,686,520	3,044,962
Charge during the year	458,070	1,538,895
Reversal made during the year	(13,594)	(54,677)
	444,476	1,484,218
Reversal on disposal of shares	(983,262)	(772,463)
Adjustments due to reclassification	(31,140)	–
Investment written off against provision	(302)	(70,197)
Closing balance	3,116,292	3,686,520
9.3.1 Particulars of provision in respect of Type and Segment		
Available-for-sale securities		
Listed shares / Certificates / Units	2,724,181	3,510,603
Unlisted shares	70,645	71,716
	2,794,826	3,582,319
Held-to-maturity securities		
Unlisted TFCs, Debentures, Bonds and Participation Term Certificates	321,466	104,201
	3,116,292	3,686,520

9.4 Quality of 'available for sale' securities

	Note	2010		2009	
		Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Market Treasury Bills	9.4.1	185,624,971	Unrated	139,261,981	Unrated
Pakistan Investment Bonds	9.4.1	4,435,059	Unrated	5,331,065	Unrated
Listed Term Finance Certificates					
Askari Bank Limited		253,473	AA–	435,623	AA–
Bank Al-Habib Limited		–	–	91,619	AA
Bank Alfalah Limited		505,153	AA–	725,109	AA–
United Bank Limited		686,225	AA	244,962	AA
Allied Bank Limited		146,252	AA–	–	AA–
Soneri Bank Limited		–	A+	144,391	A+
Pak Arab Fertilizers Limited		97,000	AA	93,840	AA
		1,688,103		1,735,544	
Shares in Listed Companies					
Abbott Laboratories Pakistan Limited		14,881	Not available	16,437	Not available
Allied Bank Limited		342,733	AA & A1+	167,045	AA & A1+
Arif Habib Limited		2,038	Not available	6,613	Not available
Arif Habib Corporation Limited (formerly Arif Habib Securities Limited)		38,079	Not available	75,377	Not available
Arif Habib Investments Limited		13,826	A & A1	–	–
Askari Bank Limited		113,744	AA & A1+	146,279	AA & A1+
Atlas Bank Limited		2,465	A– & A2	5,309	A– & A2
Attock Petroleum Limited		132,585	Not available	37,585	Not available
Azgard Nine Limited – preference shares		11,602	A+ & A1	11,370	A+ & A1
Bank Alfalah Limited		3,382	AA & A1+	70,002	AA & A1+
Bank Al-Habib Limited		241,804	AA+ & A1+	178,641	AA+ & A1+
Century Papers and Board Mills Limited		919	A+	11,655	A– & A–2

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

Note	2010		2009	
	Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
EFU General Insurance Company Limited	—	—	1,175	AA
EFU Life Assurance Company Limited	—	—	1,041	AA—
Engro Corporation Limited	—	—	123,918	AA & A1+
Fauji Fertilizer Bin Qasim Company Limited	192,955	Not available	106,942	Not available
Fauji Fertilizer Company Limited	1,090,321	Not available	516,991	Not available
First AI – Noor Modaraba	16,104	BBB & A–3	15,660	BBB & A–3
Glaxo Smithkline Pakistan Limited	42,743	Not available	52,960	Not available
Habib Bank Limited	66,428	AA+ & A–1+	212,420	AA+ & A–1+
Habib Metropolitan Bank Limited	33,628	AA+ & A–1+	21,509	AA+ & A–1+
Hub Power Company Limited	—	—	38,537	Not available
Ibrahim Fiber Limited	1,264	A+ & A1	—	—
IGI Insurance Limited	26,113	AA	38,715	AA
Indus Motors Company Limited	6,824	Not available	8,259	Not available
International Industries Limited	20,645	Not available	22,460	Not available
Jahangir Siddique & Company Limited	—	—	34,775	AA+ & A1+
Kohinoor Energy Limited	1,198	Not available	1,705	Not available
Kot Addu Power Company Limited	57,220	Not available	64,521	Not available
Lucky Cement Limited	—	—	11,592	Not available
Maple Leaf Cement Company Limited	11,002	BB & B	14,414	Not available
Masood Textile Mills Limited – preference shares	50,000	Not available	50,000	Not available
Mehr Dastagir Textile Mills Limited	3,234	Not available	323	Not available
Millat Tractors Limited	90,990	Not available	22,421	Not available
National Bank of Pakistan Limited	—	—	151,170	AAA & A–1+
National Refinery Limited	—	—	5,305	AAA & A1+
Oil & Gas Development Company Limited	5,213	AAA & A–1+	20,520	AAA & A–1+
Orix Leasing Pakistan Limited	—	—	1,675	AA & A1+
Packages Limited	5,133	AA & A1+	3,155	AA & A1+
Pak Suzuki Motor Company Limited	—	—	4,412	Not available
Pakistan Cables Limited	2,342	Not available	4,423	Not available
Pakistan Oilfields Limited	155,823	Not available	97,090	Not available
Pakistan Petroleum Limited	124,802	Not available	174,064	Not available
Pakistan State Oil Company Limited	—	—	56,990	AA+ & A1+
Pakistan Telecommunication Company Limited	98,143	Not available	86,374	Not available
Pakistan Tobacco Company Limited	5,401	Not available	14,563	Not available
Rupali Polyester Limited	23,708	Not available	24,893	Not available
Samba Bank Limited	60,688	A & A–1	102,487	A & A–1
Soneri Bank Limited	32,766	AA– & A1+	37,850	AA– & A1+
** Sui Northern Gas Pipelines Limited	1,276,269	AA & A1+	1,183,675	AA & A1+
Thal Limited	—	—	3,807	Not available
The Bank of Punjab	63,011	AA– & A1+	125,250	AA– & A1+
* Trust Securities & Brokerage Limited	525	Not available	948	Not available
Unilever Pakistan Limited	145,106	Not available	76,544	Not available
United Bank Limited	475,389	AA+ & A–1+	138,550	AA+ & A–1+
Wateen Telecom Limited	28,994	A & A–2	—	—
Zulfiqar Industries Limited	1,707	Not available	2,001	Not available
	5,133,747		4,402,397	
Open Ended Mutual Fund				
Atlas Islamic Fund	—	—	10,239	Not available
MCB Dynamic Allocation Fund	77,327	AM3+	80,691	AM3+
MCB Dynamic Cash Fund	—	—	327,366	AM3+
MCB Dynamic Stock Fund	100,624	AM3+	83,705	AM3+
	177,951		502,001	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Note	2010		2009	
		Market value (Rupees in '000)	Credit rating	Market value (Rupees in '000)	Credit rating
Shares in Un-listed Companies	9.4.2				
* Khushhali Bank Limited		300,000	A- & A-2	300,000	A-2 & A-
* National Investment Trust Limited		100	AM2	100	AM-DS
* SME Bank Limited		10,106	BBB & A-3	10,106	A-3 & BBB
First Capital Investment (Private) Limited		2,500	AM4+	2,446	AM4+
Pak Asian Fund		11,500	Not available	11,500	Not available
Pakistan Agro Storage and Services Corporation		—	—	2,500	Not available
* Arabian Sea Country Club		4,481	Not available	715	Not available
* Central Depository Company of Pakistan Limited		10,000	Not available	10,000	Not available
* National Institutional Facilitation Technologies (Private) Limited		1,527	Not available	1,527	Not available
Society for Worldwide Inter Fund Transfer (SWIFT)		1,738	Not available	1,738	Not available
Fazal Cloth Mills Limited – preference share		100,000	A- & A2	100,000	Not available
Next Capital Limited		9,752	Not available	—	—
Lanka Clearing (Private) Limited		772	Not available	736	Not available
Lanka Financial Services Bureau Limited		772	Not available	737	Not available
Credit Information Bureau of Srilanka		23	Not available	22	Not available
		453,271		442,127	
Other Investment					
Sukuk Bonds	9.4.1	2,094,727	Unrated	396,137	Unrated
N.I.T. Units		3,475	AM2	3,346	5 Star
		199,611,304		152,074,598	

9.4.1 These are Government of Pakistan guaranteed securities.

9.4.2 Investments in unlisted companies are stated at carrying value. The above excludes unlisted shares of companies which are fully provided for in these consolidated financial statements.

* These are the strategic investments of the Group.

** This includes 32.287 million shares valuing Rs. 863.355 million (2009: 32.287 million shares valuing Rs. 800.718 million) which are held as strategic investment by the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

9.5 Unrealized gain on revaluation of investments classified as 'held for trading'

	Unrealized gain		Cost	
	2010	2009	2010	2009
	(Rupees in '000)			
Investee Company				
MCB Dynamic Cash Fund	31,208	10,165	247,208	269,884
MCB Cash Management Optimizer Fund	7,045	1,345	50,604	50,604
MCB Sarmaya Mahfooz Fund 1	2,579	–	50,718	–
	<u>40,832</u>	<u>11,510</u>	<u>348,530</u>	<u>320,488</u>

9.6 "Available for sale" Market Treasury Bills and Pakistan Investment Bonds are eligible for rediscounting with the State Bank of Pakistan (SBP). The market value of Pakistan Investment Bonds and Market Treasury Bills classified as 'held to maturity' as at December 31, 2010 amounted to Rs. 1,848.956 million and Rs. 3,155.635 million (2009: Pakistan Investment Bonds Rs. 1,867.674 million and Market Treasury Bills Rs. 3,387.148 million) respectively.

9.7 Investment of the Group in Adamjee Insurance Company Limited has been accounted for under the equity method of accounting based on its financial statements as at December 31, 2010 in accordance with the treatment specified in International Accounting Standard 28, (IAS 28) 'Accounting for Investments in Associates'. The market value of the investment in Adamjee Insurance Company Limited as at December 31, 2010 amounted to Rs. 3,152.948 million (2009: Rs. 4,039.049 million).

Investment in Adamjee Insurance Company Limited under equity method – holding 29.13%

	2010	2009
	(Rupees in '000)	
Opening Balance	3,339,710	2,511,489
Share of profit for the year before tax	269,513	200,196
Dividend from associate	(85,171)	(78,917)
Share of tax	(29,333)	(464)
	155,009	120,815
Share of unrealized surplus on assets –net of tax	208,546	707,406
Closing Balance	<u>3,703,265</u>	<u>3,339,710</u>

9.8 At December 31, 2010 market value of quoted investments was Rs. 208,099.662 million (2009: Rs. 161,654.479 million) while the book value of unquoted investments was Rs. 6,769.386 million (2009: Rs. 8,148.937 million).

9.9 Investments include Pakistan Investment Bonds amounting to Rs. 232.60 million (2009: Rs. 232.60 million) earmarked by the SBP and National Bank of Pakistan against TT / DD discounting facilities and demand note facilities sanctioned to the Bank. In addition, Pakistan Investment Bonds amounting to Rs. 5 million (2009: Rs. 5 million) have been pledged with the Controller of Military Accounts on account of Regimental Fund account.

9.10 Information relating to investments in ordinary shares and preference shares of listed companies and unlisted companies required to be disclosed as part of the financial statements under BSD Circular No.04 of 2006 dated February 17, 2006, is given in Annexure "I".

9.11 Certain approved / Government securities are kept with the SBP to meet statutory liquidity requirements calculated on the basis of domestic demand and time liabilities.

9.12 The Group's investment in First Women Bank Limited is being carried at cost and have not been accounted for under equity method as the group does not have significant influence over the entity.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
10. ADVANCES – NET			
Loans, cash credits, running finances, etc.			
In Pakistan		250,283,213	247,718,210
Outside Pakistan		9,104,266	7,788,234
		<u>259,387,479</u>	<u>255,506,444</u>
Net investment in finance lease	10.2		
In Pakistan		2,333,037	3,866,801
Outside Pakistan		212,860	65,492
		<u>2,545,897</u>	<u>3,932,293</u>
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		1,274,149	4,519,520
Payable outside Pakistan		10,950,281	5,762,777
		<u>12,224,430</u>	<u>10,282,297</u>
Advances – gross		<u>274,157,806</u>	<u>269,721,034</u>
Provision against advances	10.4		
Specific provision	10.3	(18,930,571)	(15,678,345)
General provision	10.4.3	(274,144)	(269,722)
General provision against consumer loans	10.4.5	(357,352)	(494,434)
General provision for potential lease losses (in Srilanka operations)		(30,268)	(30,268)
		<u>(19,592,335)</u>	<u>(16,472,769)</u>
Advances – net of provision		<u>254,565,471</u>	<u>253,248,265</u>
10.1 Particulars of advances (gross)			
10.1.1 In local currency		253,023,244	258,500,090
In foreign currencies		21,134,562	11,220,944
		<u>274,157,806</u>	<u>269,721,034</u>
10.1.2 Short-term		192,763,200	178,868,061
Long-term		81,394,606	90,852,973
		<u>274,157,806</u>	<u>269,721,034</u>

10.2 Net investment in finance lease

	2010				2009			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	(Rs. in '000)							
Lease rentals receivable	774,330	1,418,457	1,362	2,194,149	669,185	2,759,091	8,348	3,436,624
Guaranteed residual value	404,732	294,465	254	699,451	210,340	815,464	11,760	1,037,564
Minimum lease payments	1,179,062	1,712,922	1,616	2,893,600	879,525	3,574,555	20,108	4,474,188
Finance charge for future periods	(139,747)	(207,595)	(361)	(347,703)	(87,632)	(453,294)	(969)	(541,895)
Present value of minimum lease payments	<u>1,039,315</u>	<u>1,505,327</u>	<u>1,255</u>	<u>2,545,897</u>	<u>791,893</u>	<u>3,121,261</u>	<u>19,139</u>	<u>3,932,293</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

- 10.3** Advances include Rs. 24,543.807 million (2009: Rs. 23,238.723 million) which have been placed under the non-performing status as detailed below:

		2010								
Category of Classification	Note	Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)										
Other Assets Especially Mentioned (OAEM)	10.3.1	57,057	–	57,057	–	–	–	–	–	–
Substandard		1,539,019	864	1,539,883	349,703	216	349,919	349,703	216	349,919
Doubtful		2,139,457	2,755	2,142,212	1,014,758	1,377	1,016,135	1,014,758	1,377	1,016,135
Loss		16,688,531	4,116,124	20,804,655	16,310,419	1,254,098	17,564,517	16,310,419	1,254,098	17,564,517
		20,424,064	4,119,743	24,543,807	17,674,880	1,255,691	18,930,571	17,674,880	1,255,691	18,930,571
2009										
Category of Classification	Note	Classified Advances			Specific Provision Required			Specific Provision Held		
		Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)										
Other Assets Especially Mentioned (OAEM)	10.3.1	76,933	–	76,933	–	–	–	–	–	–
Substandard		2,960,881	24,728	2,985,609	691,234	5,506	696,740	691,234	5,506	696,740
Doubtful		4,242,845	–	4,242,845	1,920,370	–	1,920,370	1,920,370	–	1,920,370
Loss		11,965,808	3,967,528	15,933,336	11,683,932	1,377,303	13,061,235	11,683,932	1,377,303	13,061,235
		19,246,467	3,992,256	23,238,723	14,295,536	1,382,809	15,678,345	14,295,536	1,382,809	15,678,345

- 10.3.1** This represents non-performing portfolio of agricultural financing classified as OAEM as per the requirements of the Prudential Regulation for Agricultural Financing issued by the State Bank of Pakistan.

Note	2010				
	Specific	General	General provision against consumer loans	Leasing (general)	Total
	(Rupees in '000)				
10.4 Particulars of provision against advances					
Opening balance	15,678,345	269,722	494,434	30,268	16,472,769
Exchange adjustments	20,890	–	–	–	20,890
Provision made during the year	5,989,585	4,422	–	–	5,994,007
Reversals	(2,756,331)	–	(137,082)	–	(2,893,413)
	<u>3,233,254</u>	<u>4,422</u>	<u>(137,082)</u>	<u>–</u>	<u>3,100,594</u>
Amounts written off	(1,918)	–	–	–	(1,918)
Closing balance	<u>18,930,571</u>	<u>274,144</u>	<u>357,352</u>	<u>30,268</u>	<u>19,592,335</u>
2009					
Note	Specific	General	General provision against consumer loans	Leasing (general)	Total
(Rupees in '000)					
Opening balance	9,895,889	273,222	533,693	9,051	10,711,855
Exchange adjustments	87,498	–	–	–	87,498
Provision made during the year	7,524,063	–	–	21,217	7,506,021
Reversals	(1,705,994)	(3,500)	(39,259)	–	(1,709,494)
	<u>5,818,069</u>	<u>(3,500)</u>	<u>(39,259)</u>	<u>21,217</u>	<u>5,796,527</u>
Amounts written off	(123,111)	–	–	–	(123,111)
Closing balance	<u>15,678,345</u>	<u>269,722</u>	<u>494,434</u>	<u>30,268</u>	<u>16,472,769</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	2010			2009		
	Specific	General (total)	Total	Specific	General (total)	Total
(Rupees in '000)						
10.4.1 Particulars of provisions against advances						
In local currency	17,674,880	631,496	18,306,376	14,295,536	764,156	15,059,692
In foreign currencies	1,255,691	30,268	1,285,959	1,382,809	30,268	1,413,077
	<u>18,930,571</u>	<u>661,764</u>	<u>19,592,335</u>	<u>15,678,345</u>	<u>794,424</u>	<u>16,472,769</u>

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
10.4.2 The following amounts have been charged to the profit and loss account:			
Specific provision		3,233,254	5,818,069
General provision	10.4.3	4,422	(3,500)
General provision against consumer loans	10.4.5	(137,082)	(39,259)
General provision for potential lease losses (in Sri Lanka operations)		—	21,217
		<u>3,100,594</u>	<u>5,796,527</u>

10.4.3 General provision against advances represents provision maintained at around 0.1% of gross advances.

10.4.4 State Bank of Pakistan vide BSD Circular No. 2 dated January 27, 2009, BSD Circular No. 10 dated October 20, 2009 and BSD Circular No. 02 of 2010 dated June 03, 2010 has allowed benefit of forced sale value (FSV) of pledged stock and mortgaged residential, commercial & industrial properties (land and building only) held as collateral against NPLs for four years from the date of classification. However, management has not taken the said benefit in calculation of specific provision, other than mortgage and agriculture financing as allowed under Prudential Regulations issued by State Bank of Pakistan.

10.4.5 General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the SBP.

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
10.5 Particulars of write offs:			
10.5.1 Against provisions	10.4	1,918	123,111
Directly charged to the profit and loss account		52,047	41,576
		<u>53,965</u>	<u>164,687</u>
10.5.2 Write offs of Rs. 500,000 and above	10.5.3	7,019	127,420
Write offs of below Rs. 500,000		46,946	37,267
		<u>53,965</u>	<u>164,687</u>

10.5.3 Details of loan write offs of Rs. 500,000 and above

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand Rupees or above allowed to a person(s) during the year ended December 31, 2010 is given at Annexure-III of unconsolidated financial statements. However, this write off does not affect the Bank's right to recover the debts from these customers.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
10.6 Particulars of advances to directors, executives, associated companies, etc.			
Debts due by executives or officers of the Group or any of them either severally or jointly with any other persons			
Balance at beginning of the year		4,432,905	3,844,485
Loans granted during the year		1,438,799	1,090,482
Repayments		(1,163,004)	(502,062)
Balance at end of the year		4,708,700	4,432,905
Debts due by controlled firms, managed modarabas and other related parties			
Balance at beginning of the year		—	—
Loans granted during the year		—	—
Repayments		—	—
Balance at end of the year		—	—
		4,708,700	4,432,905
11. OPERATING FIXED ASSETS			
Capital work-in-progress	11.1	2,040,246	1,134,089
Property and equipment	11.2	18,712,072	16,714,174
Intangible asset	11.3	309,469	250,747
		21,061,787	18,099,010
11.1 Capital work-in-progress			
Civil works		1,654,483	871,181
Advances to suppliers and contractors		194,751	115,148
Others		191,012	147,760
		2,040,246	1,134,089

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

11.2 Property and equipment

2010											
Description	Cost/ Revalued amount					Accumulated depreciation				Net book value at December 31, 2010	Annual rate of depreciation / estimated useful life
	At January 01, 2010	Additions/ (disposals)	Revaluation surplus	Reversal due to revaluation	At December 31, 2010	At January 01, 2010	Charge for the year / (depreciation on disposals)	Reversal due to revaluation	At December 31, 2010		
	(Rupees in '000)										
Land – Freehold	9,719,130	61,451	600,819	–	10,381,400	–	–	–	–	10,381,400	–
Land – Leasehold	57,430	–	62,670	–	120,100	–	–	–	–	120,100	–
Buildings on freehold land	4,317,548	437,788	892,715	(282,420)	5,365,631	190,136	105,598	(282,420)	13,314	5,352,317	50 years
Buildings on leasehold land	76,230	76,587	9,166	–	161,983	28,854	39,042	–	67,896	94,087	3 to 50 years
Furniture and fixture	717,607	93,116	–	–	807,128	331,131	61,726	–	390,099	417,029	10% to 33%
		(3,595)					(2,758)				
Electrical, Computers and office Equipment	5,302,067	689,493	–	–	5,968,890	3,246,939	732,544	–	3,958,624	2,010,266	20% to 33%
		(22,670)					(20,859)				
Vehicles	550,750	93,142	–	–	589,749	256,292	75,559	–	292,375	297,374	20%
		(54,143)					(39,476)				
Ijarah Assets											
Assets held under Ijarah – Car	29,947	22,466	–	–	52,413	3,183	9,731	–	12,914	39,499	20%
	20,770,709	1,474,043	1,565,370	(282,420)	23,447,294	4,056,535	1,024,200	(282,420)	4,735,222	18,712,072	
		(80,408)					(63,093)				

Description	2009									
	Cost/ Revalued amount			Accumulated depreciation				At December 31, 2009	Net book value at December 31, 2009	Annual rate of depreciation / estimated useful life
	At January 01, 2009	Additions/ (disposals)	Write off	At December 31, 2009	At January 01, 2009	Charge for the year / (depreciation on disposals)	Write off			
	(Rupees in '000)									
Land – Freehold	9,718,045	1,085	–	9,719,130	–	–	–	–	9,719,130	–
Land – Leasehold	57,430	–	–	57,430	–	–	–	–	57,430	–
Buildings on freehold land	4,247,704	104,184	–	4,317,548	92,181	99,143	–	190,136	4,127,412	50 years
		(34,340)				(1,188)				
Buildings on leasehold land	65,567	10,663	–	76,230	25,062	3,792	–	28,854	47,376	3 to 50 years
Furniture and fixture	678,710	70,495	(27,266)	717,607	313,697	41,182	(20,522)	331,131	386,476	10% to 33%
		(4,332)				(3,226)				
Electrical, Computers and office Equipment	4,697,998	802,825	(181,841)	5,302,067	2,741,607	691,523	(171,108)	3,246,939	2,055,128	20% to 33%
		(16,915)				(15,083)				
Vehicles	540,931	77,550	–	550,750	218,810	78,825	–	256,292	294,458	20%
		(67,731)				(41,343)				
Ijarah Assets										
Assets held under Ijarah – Car	–	29,947	–	29,947	–	3,183	–	3,183	26,764	20%
	20,006,385	1,096,749	(209,107)	20,770,709	3,391,357	917,648	(191,630)	4,056,535	16,714,174	
		(123,318)	–			(60,840)				

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

11.2.1 The land and buildings of the Group were revalued in December 2010 by independent valuers (Pee Dee Associates & Arch-e-Decon), valuation and engineering consultants, on the basis of market value. This valuation was incorporated at December 31, 2010. The information relating to location of revalued assets is given in Annexure III. The details of revalued amounts are as follows:

	(Rupees in '000)
Total revalued amount of land	10,501,500
Total revalued amount of buildings	5,410,745

Had the land and buildings not been revalued, the total carrying amounts of revalued properties as at December 31, 2010 would have been as follows:

	(Rupees in '000)
Land	2,504,468
Buildings	3,102,017

11.2.2 The gross carrying amount (cost) of fully depreciated assets that are still in use are as follows:

Furniture and fixture	11,952
Electrical, computers and office equipment	2,044,587
Vehicles	303,812

11.2.3 Details of disposal of operating fixed assets

The information relating to disposal of operating fixed assets required to be disclosed as part of the financial statements by the State Bank of Pakistan is given in Annexure II and is an integral part of these financial statements.

11.3 Intangible asset

Description	2010							
	Cost			Accumulated amortization			Net book value at December 31, 2010	Annual rate of amortization %
	At January 01, 2010	Additions	At December 31, 2010	At January 01, 2010	Amortization for the year	At December 31, 2010		
	(Rupees in '000)							
Computer software	922,575	220,876	1,143,451	671,828	162,154	833,982	309,469	33.33
	922,575	220,876	1,143,451	671,828	162,154	833,982	309,469	
Description	2009							
	Cost			Accumulated amortization			Net book value at December 31, 2009	Annual rate of amortization %
	At January 01, 2009	Additions	At December 31, 2009	At January 01, 2009	Amortization for the year	At December 31, 2009		
	(Rupees in '000)							
Computer software	712,082	210,493	922,575	516,851	154,977	671,828	250,747	33.33
	712,082	210,493	922,575	516,851	154,977	671,828	250,747	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
12. OTHER ASSETS – NET			
Income / mark-up accrued on advances and investments – local currency		7,760,649	7,832,173
Income / mark-up accrued on advances and investments – foreign currencies		45,656	50,221
Advances, deposits, advance rent and other prepayments		2,967,029	2,891,194
Advance taxation (payments less provisions)		2,549,908	–
Compensation for delayed income tax refunds		44,802	44,802
Branch adjustment account		153,857	298,112
Non-banking assets acquired in satisfaction of claims	12.1	1,155,832	1,155,832
Unrealised gain on derivative financial instruments	12.2	278,628	194,400
Stationery and stamps on hand		94,053	82,466
Prepaid exchange risk fee		233	319
Receivable from the pension fund	36.3	12,542,560	9,322,304
Deferred Cost		1,227	–
Others		920,039	1,769,861
		28,514,473	23,641,684
Less: Provision held against other assets	12.3	768,275	583,953
		27,746,198	23,057,731

12.1 The market value of non-banking assets with carrying value of Rs. 1,033.222 million (2009: Rs. 1,033.222 million) net of provision as per the valuation report dated December 31, 2010 amounted to Rs. 1,048.473 million (2009: Based on valuation as of December 31, 2009 Rs. 1,068.687 million).

12.2 Unrealised gain on derivative financial instruments

	Notional amount of contracts		Unrealised gain	
	2010	2009	2010	2009
	(Rupees in '000)			
Unrealised gain on:				
Interest rate swaps	–	83,333	–	642
Cross currency swaps	76,563	124,845	51	307
Forward exchange contracts	23,302,853	21,232,947	278,577	193,451
	23,379,416	21,441,125	278,628	194,400

	Note	2010 (Rupees in '000)	2009
12.3 Provision held against other assets			
Opening balance		583,953	456,098
Charge for the year		88,261	142,824
Reversal during the year		–	–
		88,261	142,824
Write off during the year		(111,409)	(14,969)
Adjustment / Transfer		207,470	–
Closing balance		768,275	583,953

13. CONTINGENT ASSETS

There were no contingent assets of the Group as at December 31, 2010 and December 31, 2009.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
14. BILLS PAYABLE			
In Pakistan		10,218,142	8,131,031
Outside Pakistan		47,395	70,059
		<u>10,265,537</u>	<u>8,201,090</u>
15. BORROWINGS			
In Pakistan		24,324,510	43,658,408
Outside Pakistan		1,360,083	1,003,680
		<u>25,684,593</u>	<u>44,662,088</u>
15.1 Particulars of borrowings with respect to currencies			
In local currency		24,324,510	43,658,408
In foreign currencies		1,360,083	1,003,680
		<u>25,684,593</u>	<u>44,662,088</u>
15.2 Details of borrowings (secured / unsecured)			
Secured			
Borrowings from State Bank of Pakistan			
Export refinance scheme	15.3 & 15.5	9,880,240	8,829,527
Long term financing facility	15.4 & 15.5	721,000	80,220
Long term financing – export oriented projects scheme	15.4 & 15.5	1,444,542	2,018,330
		<u>12,045,782</u>	<u>10,928,077</u>
Borrowings from other financial institution	15.6	618,163	452,398
Repurchase agreement borrowings	15.7	12,027,499	31,606,331
		<u>24,691,444</u>	<u>42,986,806</u>
Unsecured			
Call borrowings	15.8	449,860	1,146,092
Overdrawn nostro accounts		543,289	529,190
		<u>993,149</u>	<u>1,675,282</u>
		<u>25,684,593</u>	<u>44,662,088</u>
15.3	The Bank has entered into agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreements, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP.		
15.4	The amount is due to SBP and has been obtained for providing long term finance to customers for export oriented projects. As per the agreements with SBP, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP.		
15.5	Borrowings from SBP under the export refinance and long term financing for export oriented projects schemes are secured against the Bank's cash and security balances held by the SBP.		
15.6	These carry mark-up ranging 2% to 3.15% per annum (2009: 5% per annum).		
15.7	These carry mark-up rates ranging between 12.75% to 14% per annum (2009: 12.05% to 12.50% per annum) and are secured against government securities of carrying value of Rs. 11,940.647 million (2009: Rs. 31,513.525 million). These are repayable latest by January, 2011.		
15.8	These carry mark-up at the rate of 8.10% per annum (2009: 12.40% per annum). These are repayable by January, 2011.		

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
16. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		80,049,848	62,651,531
Saving deposits		195,987,483	173,773,442
Current accounts		144,520,780	123,898,324
Margin accounts		3,482,526	2,910,655
Others		–	767
		424,040,637	363,234,719
Financial institutions			
Remunerative deposits		4,128,090	2,258,295
Non-remunerative deposits		3,126,772	2,088,061
		7,254,862	4,346,356
		431,295,499	367,581,075
16.1 Particulars of deposits			
In local currency		404,092,501	336,180,581
In foreign currencies		27,202,998	31,424,130
		431,295,499	367,581,075

16.2 Deposits include deposits from related parties amounting to Rs. 27,812.207 million (2009: Rs. 20,415.30 million).

	Note	2010 (Rupees in '000)	2009
17. DEFERRED TAX LIABILITY / (ASSET) – NET			
The details of the tax effect of taxable and deductible temporary differences are as follows:			
Taxable temporary differences on:			
Surplus on revaluation of operating fixed assets	21.1	808,054	504,200
Accelerated tax depreciation		853,349	756,384
Receivable from pension fund		4,389,896	3,262,911
Net investment in finance lease receivable		119,372	301,166
Investments in associated undertaking		202,332	–
Others		1,828	–
		6,374,831	4,824,661
Deductible temporary differences on:			
Deficit on revaluation of securities	21.2	(15,580)	(90,053)
Provision for bad debts		(821,631)	(1,084,974)
Provision for gratuity		(1,083)	(399)
Provision for contributory benevolent scheme		(27,128)	(46,604)
Provision for post retirement medical benefits		(353,170)	(399,420)
Taxable losses		(9,506)	–
Others		–	(1,455)
		(1,228,098)	(1,622,905)
		5,146,733	3,201,756

17.1 The Finance Act, 2009 and 2010 have made significant amendments in the Seventh Schedule to Income Tax Ordinance, 2001. The deduction for provision for doubtful and loss categories of advances and off balance sheet items is allowable up to a maximum of 1% of total advances whereas provisions for advances and off-balance sheet items for consumers and small and medium enterprises (SMEs) ("as defined under the SBP's Prudential Regulations") is now allowed at 5% of gross consumer and SME portfolio. The amount of bad debts classified as substandard under Prudential Regulations issued by State Bank of Pakistan would not be allowed as an expense.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
18. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		6,293,230	5,144,560
Mark-up / return / interest payable in foreign currencies		44,443	68,138
Accrued expenses		2,628,033	1,852,740
Unclaimed dividend		606,751	293,582
Staff welfare fund		46,777	56,244
Unrealised loss on derivative financial instruments	18.1	264,411	276,063
Provision for employees' compensated absences	36.3	555,792	541,116
Provision for post retirement medical benefits	36.3	1,374,293	1,370,424
Provision for employees' contributory benevolent scheme	36.3	262,263	246,444
Provision for gratuity		2,564	1,139
Security deposits received in respect of finance lease		714,165	1,041,833
Taxation (provision less payments)		–	1,089,437
Retention money		32,067	27,161
Insurance payable against consumer assets		196,806	298,504
Others		3,068,779	3,475,204
		16,090,374	15,782,589

18.1 Unrealised loss on derivative financial instruments

	Notional amount of contracts		Unrealised loss	
	2010	2009	2010	2009
	(Rupees in '000)			
Unrealised loss on:				
Interest rate swaps	–	83,333	–	–
Cross currency swaps	76,563	124,845	51	307
Forward exchange contracts	19,097,040	25,636,271	264,360	275,756
	19,173,603	25,844,449	264,411	276,063

19. SHARE CAPITAL

19.1 Authorised Capital

2010 (Number of shares)	2009 (Number of shares)		2010 (Rupees in '000)	2009 (Rupees in '000)
1,000,000,000	1,000,000,000	Ordinary shares of Rs 10 each	10,000,000	10,000,000

19.2 Issued, subscribed and paid-up capital

2010			2009				2010	2009
Issued for cash	Issued as bonus shares	Total	Issued for cash	Issued as bonus shares	Total		(Rupees in '000)	
(Number of shares)								
197,253,795	493,850,732	691,104,527	197,253,795	431,023,048	628,276,843	Opening balance	6,911,045	6,282,768
–	69,110,453	69,110,453	–	62,827,684	62,827,684	Shares issued during the year	691,105	628,277
197,253,795	562,961,185	760,214,980	197,253,795	493,850,732	691,104,527	Closing balance	7,602,150	6,911,045

	2010 (Number of shares)	2009 (Number of shares)
19.3 Number of shares held by the associated undertakings as at December 31, are as follows:		
Adamjee Insurance Company Limited	23,263,378	21,148,526
Nishat Mills Limited	53,411,266	47,810,242
D.G. Khan Cement Company Limited	69,856,731	63,506,121
Din Leather (Private) Limited	4,737,611	4,306,919
Siddiqsons Limited	34,708,948	31,553,589
Mayban International Trust (Labuan) Berhad	152,042,995	138,220,905
	338,020,929	306,546,302

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
20. RESERVES			
Share premium		9,702,528	9,702,528
Exchange translation reserve		347,599	258,047
Statutory reserve	20.1	11,514,399	9,827,081
General reserve		18,600,000	18,600,000
		<u>40,164,526</u>	<u>38,387,656</u>

20.1 Statutory reserve represents amount set aside as per the requirements of section 21 of the Banking Companies Ordinance, 1962.

	Note	2010 (Rupees in '000)	2009
21. SURPLUS ON REVALUATION OF ASSETS – NET OF TAX			
Surplus arising on revaluation (net of tax) of:			
– fixed assets	21.1	9,497,706	8,269,854
– available-for-sale securities	21.2	537,275	395,187
Surplus arising on revaluation of assets of associated undertaking (net of tax)		736,343	527,797
		<u>10,771,324</u>	<u>9,192,838</u>
21.1 Surplus on revaluation of fixed assets–net of tax			
Surplus on revaluation of fixed assets as at January 01		8,774,054	8,810,971
Surplus during the year		1,565,370	–
Surplus realised on disposal of revalued properties – net of deferred tax		–	(1,623)
Related deferred tax liability		–	(874)
		–	(2,497)
Transferred to unappropriated profit in respect of incremental depreciation charged during the year – net of deferred tax		(21,879)	(22,374)
Related deferred tax liability		(11,785)	(12,046)
		(33,664)	(34,420)
Surplus on revaluation of fixed assets as at December 31		<u>10,305,760</u>	<u>8,774,054</u>
Less: Related deferred tax liability on:			
Revaluation as at January 01		504,200	517,120
Surplus during the year		315,639	–
Disposal of revalued properties during the year transferred to profit and loss account		–	(874)
Incremental depreciation charged during the year transferred to profit and loss account		(11,785)	(12,046)
		<u>808,054</u>	<u>504,200</u>
		<u>9,497,706</u>	<u>8,269,854</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
21.2 Surplus / (deficit) on revaluation of available-for-sale securities – net of tax			
Federal Government Securities			
– Market Treasury Bills		(330,227)	(307,793)
– Pakistan Investment Bonds		(329,193)	(123,876)
Listed Securities			
– Shares / Certificates / Units		1,089,882	690,169
– Open Ended Mutual Funds		80,603	146,730
– Term Finance Certificates		15,903	(96,233)
		1,186,388	740,666
Sukuk Bonds		(5,273)	(3,863)
		521,695	305,134
Add: Related deferred tax asset	17	15,580	90,053
		537,275	395,187
22. CONTINGENCIES AND COMMITMENTS			
22.1 Transaction-related contingent liabilities			
Guarantees in favour of:			
Government		4,533,255	6,027,243
Banks and financial institutions		1,455,621	11,312,597
Others		7,794,659	4,755,380
Suppliers' credit / payee guarantee		2,326,818	2,421,640
		16,110,353	24,516,860
22.2 Trade-related contingent liabilities		76,856,249	47,577,037
22.3 Other contingencies			
Claims against the Bank not acknowledged as debts		674,032	542,415
22.4 Commitments to extend credit			
The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.			
	Note	2010 (Rupees in '000)	2009
22.5 Commitments in respect of forward foreign exchange contracts			
Purchase		20,154,200	23,832,214
Sale		22,245,693	23,037,004
22.6 Commitments for the acquisition of fixed assets		51,944	–
22.7 Other commitments			
Cross currency swaps (notional amount)	23.1 & 23.2	153,126	249,690
Interest rate swaps – (notional amount)	23.1 & 23.2	–	166,667

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

22.8 Taxation

The income tax assessments of the Bank have been finalised upto and including the Tax Year 2010. For the Tax Years 2003 to 2009, the department has amended the assessments on certain issues against which the Bank has filed appeals. In respect of the Tax Year 2003 to 2006, the Commissioner of Income Tax (Appeals) vide his orders has decided the matter in favour of the Bank against which the department has filed appeal before the Income Tax Appellate Tribunal (ITAT). The management and the Bank's legal counsel are of the view that the issues will be decided in the Bank's favour as and when these are taken up by the appellate authorities. For Tax Year 2009, the department has amended the assessment on similar issues resulting in additional tax liability of Rs. 982.054 million against which the legal / appellate course from the Bank has reached ITAT level.

Total disallowances for the assessment years 1994–95 to 1997–98 on account of interest in suspense amounted to Rs. 722.682 million out of which an amount of Rs. 317.289 million has been allowed in the assessment years 1998–1999 to 2000–2001. It is expected that the pending appeals in this regard in the Honourable Sindh High Court shall be decided in favour of the Bank as allowed in assessment years 1992–1993 and 1993–1994. Subsequent to the favourable order of the Honourable Sindh High Court, the management considers that provision is not necessary for the remaining balance of Rs. 405.393 million resulting in tax liability for interest in suspense for Rs. 244.781 million as the Bank has been subjected to tax far exceeding its normal tax liability and is hopeful of favourable decisions in appeals. Accordingly, no provision has been made in these financial statements for the above amount.

23. DERIVATIVE INSTRUMENTS

Most corporate (counter parties) have either interest rate exposures arising from debt financing or excess liquidity or currency exposures arising out of commercial and business transactions. In the event of a shift in interest or foreign exchange (FX) rates, these corporate may incur higher borrowing costs or higher cash outflows that will adversely affect profitability.

The Bank is providing solutions to this conundrum through derivatives. Through this, counterparties will be hedging exposure to adverse price movements in a security, typically when the counterparty has a concentrated position in the security and is acutely exposed to movements in the underlying risk factors. The Bank is in a better position to hedge that risk, and is thus able to provide cost efficient hedging solutions to the counterparties enabling them to concentrate on their business risk.

Other Objectives include:

- contribution to the development of Pakistani financial markets.
- provision of financial solutions to the counterparties.

In light of the above the Bank is actively marketing interest rate risk and FX risk management tools, including:

- Interest Rate Swaps
- Third Currency FX options
- Currency Swaps.

Risk management is performed at:

- a) Strategic level: By senior management Assets and Liabilities Management Committee (ALCO), Risk Management Committee (RMC) and the Board of Directors to institute a risk management framework and to ensure provision of all resources and support required for effective risk management on Bank-wide basis.
- b) Macro Level: By Financial Institution Public Sector (FIPS) & Market Risk Management (MRM) Division, responsible for policy formulation, procedure development & implementation, monitoring and reporting.
- c) Micro Level: Treasury Derivatives & Structured Product Desk and Treasury Operations, where risks are actually created.

FIPS & MRM Division is responsible for coordinating for risk management of derivatives.

The risk management system generates marked to market risk numbers (i.e. VaR PVP, duration, etc.) of Interest rate derivative portfolio. These numbers are reported to senior management on a daily basis.

As per the State Bank of Pakistan's (SBP) regulations, currency options are hedged back to back and thus the risk associated with such transactions are minimal.

Risk Limits

Before initiating any new derivative transaction, Treasury Division requests the FIPS & MRM Division for risk limits. Limit requests are approved by the appropriate level of authority. Presently the Bank has notional limits (both for the portfolio and the counterparty).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

23.1 Product analysis

Counter parties	2010					
	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)
With Banks for						
Hedging	2	76,563	—	—	—	—
Market Making	—	—	—	—	—	—
With other entities for						
Hedging	—	—	—	—	—	—
Market Making	2	76,563	—	—	—	—
Total						
Hedging	2	76,563	—	—	—	—
Market Making	2	76,563	—	—	—	—
Counter parties	2009					
	Cross Currency Swaps		Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)	No. of Contracts	Notional Principal (Rupees in '000)
With Banks for						
Hedging	2	124,845	1	83,333	—	—
Market Making	—	—	—	—	—	—
With other entities for						
Hedging	—	—	—	—	—	—
Market Making	2	124,845	1	83,333	—	—
Total						
Hedging	2	124,845	1	83,333	—	—
Market Making	2	124,845	1	83,333	—	—

23.2 Maturity analysis

Remaining Maturity	2010				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
			(Rupees in '000)		
Cross currency swaps					
1 to 2 Years	4	153,126	(51)	51	—
Remaining Maturity	2009				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
			(Rupees in '000)		
Cross currency swaps					
1 to 2 Years	4	249,690	(307)	307	—
Remaining Maturity	2010				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
			(Rupees in '000)		
Interest rate swaps					
6 month to 1 year	—	—	—	—	—
Remaining Maturity	2009				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
			(Rupees in '000)		
Interest rate swaps					
6 month to 1 year	2	166,666	—	642	642

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

Note	2010	2009
	(Rupees in '000)	
24. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to:		
Customers	32,606,495	36,218,001
On investments in:		
Held for trading securities	–	10,842
Available for sale securities	19,009,859	12,052,173
Held to maturity securities	1,310,394	1,831,147
	20,320,253	13,894,162
On deposits with financial institutions	16,283	133,069
On securities purchased under resale agreements	1,563,520	838,415
On money at call	105,031	335,911
Others	217,783	202,353
	54,829,365	51,621,911
25. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	15,803,152	13,865,058
Securities sold under repurchase agreements	622,999	722,711
Other short-term borrowings	901,916	775,126
Discount, commission and brokerage	596,090	448,742
Others	103,215	23,944
	18,027,372	15,835,581
26. GAIN ON SALE OF SECURITIES – NET		
Federal Government Securities		
– Market Treasury Bills	965	11,011
– Pakistan Investment Bonds	30,880	77,981
– Sukuk Bonds	1,800	–
Shares		
– Listed	376,973	676,037
– Unlisted	–	18,630
Term Finance Certificates	–	22,729
	410,618	806,388
27. OTHER INCOME		
Rent on property / lockers	84,241	87,397
Net profit on sale of property and equipment	16,961	30,614
Bad debts recovered	58,981	90,310
Others	590,875	565,696
	751,058	774,017

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
28. ADMINISTRATIVE EXPENSES			
Salaries and allowances		7,294,811	6,516,556
Charge / (reversal) for defined benefit plans and other benefits:			
– Approved pension fund	36.7	(3,220,256)	(3,923,285)
– Post retirement medical benefits	36.7	136,014	130,488
– Employees' contributory benevolent scheme	36.7	71,464	64,906
– Employees' compensated absences	36.7	190,821	150,779
– Gratuity scheme		1,425	628
		(2,820,532)	(3,576,484)
Contributions to defined contribution plan – provident fund		159,051	151,325
Non-executive directors' fees		31,956	10,220
Rent, taxes, insurance and electricity		1,594,032	1,367,486
Legal and professional charges		224,537	246,221
Communications		844,345	998,225
Repairs and maintenance		689,704	539,571
Stationery and printing		366,649	332,842
Advertisement and publicity		236,933	216,636
Cash transportation charges		403,427	515,903
Instrument clearing charges		165,519	137,109
Donations	28.1	15,000	25,000
Auditors' remuneration	28.2	17,991	16,295
Depreciation	11.2	1,024,200	917,648
Amortization of intangible asset	11.3	162,154	154,977
Amortization of deferred cost		307	–
Travelling, conveyance and fuel		685,759	590,555
Subscription		29,355	16,967
Entertainment		69,887	74,750
Training expenses		58,152	47,057
Petty capital items		63,924	49,034
Credit card related expenses		129,184	58,264
Others		881,151	829,209
		12,327,496	10,235,366

28.1 None of the directors, executives or their spouses had any interest in the donee. Detail of donations made during the year is as follows:

	Note	2010 (Rupees in '000)	2009
Mosque of Armed forces Institute of Cardiology and National Institute of Heart Diseases, Rawalpindi		500	–
Chief Minister's Flood Relief and Rehabilitation Account for relief of flood victims		10,000	–
CAS flood relief fund for flood victims		2,500	–
Aitmaad Pakistan Trust for relief to the flood calamity masses of Pakistan		2,000	–
Mir Khalil ur Rehman Foundation (MKRF) for internally displaced persons (IDPs)		–	25,000
		15,000	25,000

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
28.2 Auditors' remuneration			
Annual Audit fee		2,716	2,587
Fee for the audit of branches		3,604	3,432
Fee for the audit of subsidiaries		1,642	516
Fee for the audit of overseas subsidiaries		1,327	594
Fee for audit and other certifications of overseas branches		4,593	4,500
Fee for half year review		1,210	1,152
Special certifications, etc.		1,920	2,581
Out-of-pocket expenses		979	933
		<u>17,991</u>	<u>16,295</u>
29. OTHER CHARGES			
Fixed assets written off		—	17,477
Penalties of State Bank of Pakistan		366,251	30,000
Workers welfare fund		529,260	463,441
VAT Sri Lanka		89,216	103,707
Others		5,911	77,097
		<u>990,638</u>	<u>691,722</u>
30. TAXATION			
For the year			
Current		8,053,368	7,725,787
Deferred		1,376,495	300,663
		<u>9,429,863</u>	<u>8,026,450</u>
Prior years			
Current		—	(2,232,933)
Deferred		178,314	1,889,762
		<u>178,314</u>	<u>(343,171)</u>
Share of tax of associated undertaking		29,333	464
		<u>9,637,510</u>	<u>7,683,743</u>
30.1 Relationship between tax expense and accounting profit			
Accounting profit for the year		<u>26,509,636</u>	<u>23,349,146</u>
Tax rate		<u>35%</u>	<u>35%</u>
Tax on income		9,278,373	8,172,201
Tax effect on separate block of income (taxable at reduced rate)		(112,623)	(114,935)
Tax effect of permanent differences		305,231	(18,306)
Tax effect of prior years provisions / (reversals)		178,314	(343,171)
Reversal of deferred tax liability on incremental depreciation		(11,785)	(12,046)
Tax charge for the year		<u>9,637,510</u>	<u>7,683,743</u>
31. CREDIT RATING			
PACRA through its notification in June 2010, has maintained long term credit rating of AA+ [double A plus] and short-term credit rating of A1+ [A one plus] to the Bank (2009: AA+ [Double A plus] for long term and A1+ [A one plus] for short term rating).			

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	2010 (Rupees in '000)	2009
32. BASIC AND DILUTED EARNINGS PER SHARE – PRE TAX		
Profit before taxation	26,509,636	23,349,146
	(Number of shares)	
Weighted average number of shares outstanding during the year	760,214,980	760,214,980
	(Rupees)	
Basic and diluted earnings per share – pre tax	34.87	30.71
	2010 (Rupees in '000)	2009
33. BASIC AND DILUTED EARNINGS PER SHARE – AFTER TAX		
Profit after taxation	16,874,019	15,665,399
	(Number of shares)	
Weighted average number of shares outstanding during the year	760,214,980	760,214,980
	(Rupees)	
Basic and diluted earnings per share – after tax	22.20	20.61

*Weighted average number of shares outstanding for 2009 have been restated to give effect of bonus shares issued during the year.

	Note	2010 (Rupees in '000)	2009
34. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	45,407,264	38,774,871
Balances with other banks	7	1,551,518	6,077,354
		46,958,782	44,852,225
		2010 (Number)	2009
35. STAFF STRENGTH			
Permanent		9,881	9,704
Temporary/on contractual basis		59	75
Bank's own staff strength at the end of the year		9,940	9,779
Outsourced		3,774	3,750
Total staff strength		13,714	13,529

36. DEFINED BENEFIT PLANS AND OTHER BENEFITS

36.1 General description

The Bank operates the following retirement benefits for its employees:

- Pension fund (final salary plan) – funded
- Benevolent scheme – unfunded
- Post retirement medical benefits – unfunded
- Employees compensated absence – unfunded

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

36.2 Principal actuarial assumptions

The latest actuarial valuations of the approved pension fund, employees' contributory benevolent scheme, post retirement medical benefits and employee's compensated absences were carried out at December 31, 2010. The principal actuarial assumptions used are as follows:

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2010	2009	2010	2009	2010	2009	2010	2009
	(%)							
Valuation discount rate	13	14	13	14	13	14	13	14
Expected rate of return on plan assets	13	14	–	–	–	–	–	–
Salary increase rate	10	10	10	10	10	10	10	10
Medical cost inflation rate	–	–	–	–	7	8	–	–
Exposure inflation rate	–	–	–	–	3	3	–	–

The expected return on plan assets is based on the market expectations and depends on the asset portfolio of the Bank, at the beginning of the period, for returns over the entire life of the related obligation.

36.3 (Receivable from) / payable to defined benefit plans and other benefits

	Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
		2010	2009	2010	2009	2010	2009	2010	2009
		(Rupees in '000)							
Present value of defined benefit obligations	36.5	4,217,507	4,072,653	314,414	299,388	1,320,933	1,287,348	555,792	541,116
Fair value of plan assets	36.6	(19,303,801)	(18,254,967)	–	–	–	–	–	–
Net actuarial gains / (losses) not recognised		2,543,734	4,860,010	(52,151)	(52,944)	53,360	49,369	–	–
Unrecognised negative past service cost		–	–	–	–	–	33,707	–	–
Unrecognised past service cost		–	–	–	–	–	–	–	–
Net (receivable) / payable recognised as at the year-end		(12,542,560)	(9,322,304)	262,263	246,444	1,374,293	1,370,424	555,792	541,116

The effect of increase of one percent and the effect of a decrease of one percent in the medical trend rates on the present value of medical obligation at December 31, 2010 would be Rs. 82.189 million (2009: Rs. 76.348 million) and Rs. 68.517 million (2009: Rs. 62.472 million) respectively.

36.4 Movement in balance (receivable) / payable

	Note	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
		2010	2009	2010	2009	2010	2009	2010	2009
		(Rupees in '000)							
Opening balance of (receivable) / payable		(9,322,304)	(5,399,019)	246,444	274,446	1,370,424	1,400,413	541,116	752,947
Expense recognised	36.7	(3,220,256)	(3,923,285)	71,464	64,906	136,014	130,488	190,821	150,779
– Employees' contribution		–	–	10,972	12,338	–	–	–	–
Benefits paid		–	–	(66,617)	(105,246)	(132,145)	(160,477)	(176,145)	(362,610)
Closing balance of (receivable) / payable		(12,542,560)	(9,322,304)	262,263	246,444	1,374,293	1,370,424	555,792	541,116

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

36.5 Reconciliation of the present value of the defined benefit obligations

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2010	2009	2010	2009	2010	2009	2010	2009
(Rupees in '000)								
Present value of obligation as at January 01,	4,072,653	4,295,986	299,388	300,162	1,287,348	1,269,622	541,116	752,947
Current service cost	37,135	22,223	14,447	11,751	16,172	15,253	33,927	47,209
Interest cost	570,171	558,478	41,914	39,021	180,229	165,051	75,756	97,883
Benefits paid	(654,204)	(1,172,751)	(66,617)	(105,246)	(132,145)	(160,477)	(176,145)	(362,610)
Actuarial (gains) / losses	191,752	368,717	25,282	53,700	(30,671)	(2,101)	81,138	5,687
Present value of obligation as at December 31,	4,217,507	4,072,653	314,414	299,388	1,320,933	1,287,348	555,792	541,116

36.6 Changes in fair values of plan assets

		Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
Note		2010	2009	2010	2009	2010	2009	2010	2009
(Rupees in '000)									
Net assets as at January 01,		18,254,967	15,953,712	—	—	—	—	—	—
Expected return on plan assets		2,555,695	2,073,983	—	—	—	—	—	—
Benefits paid		(654,204)	(1,172,751)	—	—	—	—	—	—
Actuarial gain / (loss)		(852,657)	1,400,023	—	—	—	—	—	—
Net assets as at December 31,	36.9	19,303,801	18,254,967	—	—	—	—	—	—

36.7 Charge for defined benefit plans and other benefits

The following amounts have been charged to the profit and loss account in respect of defined benefit plans and other benefits:

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2010	2009	2010	2009	2010	2009	2010	2009
(Rupees in '000)								
Current service cost	37,135	22,223	14,447	11,751	16,172	15,253	33,927	47,209
Interest cost	570,171	558,478	41,914	39,021	180,229	165,051	75,756	97,883
Expected return on plan assets	(2,555,695)	(2,073,983)	—	—	—	—	—	—
Net actuarial (gain) / loss recognised	(1,271,867)	(2,430,003)	26,075	26,472	(26,680)	(24,685)	81,138	5,687
Contributions employees	—	—	(10,972)	(12,338)	—	—	—	—
Recognised past service cost	—	—	—	—	—	8,577	—	—
Recognised negative past service cost	—	—	—	—	(33,707)	(33,708)	—	—
	(3,220,256)	(3,923,285)	71,464	64,906	136,014	130,488	190,821	150,779

The effect of increase of one percent and the effect of a decrease of one percent in the medical trend rates on the aggregate of the current service cost and interest cost components of net period post – employment medical costs would be Rs. 11.502 million (2009: Rs. 12.139 million) and Rs. 9.550 million (2009: Rs. 9.871 million) respectively.

36.8 Actual return on plan assets

	Approved pension fund		Employees' contributory benevolent scheme		Post retirement medical benefits		Employees' compensated absences	
	2010	2009	2010	2009	2010	2009	2010	2009
(Rupees in '000)								
Actual return on plan assets	1,703,038	3,474,006	—	—	—	—	—	—

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

36.9 Composition of fair value of plan assets

	Approved Pension Fund			
	2010		2009	
	Fair Value (Rupees in '000)	Percentage (%)	Fair Value (Rupees in '000)	Percentage (%)
Term deposit receipts	14,855,349	76.96	12,933,809	70.85
Listed equity shares	3,380,334	17.51	3,255,079	17.83
Open ended mutual funds units	222,605	1.15	127,412	0.70
Term Finance Certificates	197,652	1.02	–	–
Cash and bank balances	647,861	3.36	1,938,667	10.62
Fair value of plan total assets	19,303,801	100	18,254,967	100
36.9.1 Fair value of the Bank's financial instruments included in plan assets:				
Shares of MCB	2,667,543		2,331,026	
TDRs of MCB	14,855,349		12,933,809	
Bank balance with MCB	634,567		1,926,220	
	18,157,459		17,191,055	

36.10 Other relevant details of above funds are as follows:

	2010	2009	2008	2007	2006
	(Rupees in '000)				
36.10.1 Pension Fund					
Present value of defined benefit obligation	4,217,507	4,072,653	4,295,986	4,747,389	4,752,693
Fair value of plan assets	(19,303,801)	(18,254,967)	(15,953,712)	(25,095,113)	(14,810,557)
(Surplus) / deficit	(15,086,294)	(14,182,314)	(11,657,726)	(20,347,724)	(10,057,864)
Actuarial gain / (loss) on obligation					
Experience adjustment	(191,752)	(368,717)	167,695	(325,849)	54,320
Assumptions gain / (loss)	–	–	–	–	–
	(191,752)	(368,717)	167,695	(325,849)	54,320
Actuarial gain / (loss) on assets					
Experience adjustment	(852,657)	1,400,023	(476,313)	9,694,483	4,634,045
Assumptions gain / (loss)	–	–	–	–	–
	(852,657)	1,400,023	(476,313)	9,694,483	4,634,045
36.10.2 Employees' Contributory Benevolent Scheme					
Present value of defined benefit obligation	314,414	299,388	300,162	355,340	332,677
Fair value of plan assets	–	–	–	–	(20,650)
	314,414	299,388	300,162	355,340	312,027
Actuarial gain / (loss) on obligation					
Experience adjustment	(25,282)	(53,700)	34,745	(60,968)	10,182
Assumptions gain / (loss)	–	–	–	–	–
	(25,282)	(53,700)	34,745	(60,968)	10,182
Actuarial gain / (loss) on assets					
Experience adjustment	–	–	–	(1,529)	(34)
Assumptions gain / (loss)	–	–	–	–	–
	–	–	–	(1,529)	(34)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	2010	2009	2008	2007	2006
	(Rupees in '000)				
36.10.3 Post Retirement Medical Benefits					
Present value of defined benefit obligation	1,320,933	1,287,348	1,269,622	1,422,918	1,345,357
	1,320,933	1,287,348	1,269,622	1,422,918	1,345,357
Actuarial gain / (loss) on obligation					
Experience adjustment	30,671	2,101	159,682	(40,893)	36,153
Assumptions gain / (loss)	–	–	–	–	(21,846)
	30,671	2,101	159,682	(40,893)	14,307
36.10.4 Compensated absences					
Present value of defined benefit obligation	555,792	541,116	752,947	974,464	1,023,683
Fair value of plan assets	–	–	–	–	–
	555,792	541,116	752,947	974,464	1,023,683
Actuarial gain / (loss) on obligation	(81,138)	(5,687)	–	–	–

36.11. No contribution to the pension fund is expected in the next future year.

37. DEFINED CONTRIBUTION PLAN

37.1. MCB Bank Limited (holding company)

The Bank operates an approved contributory provident fund for 6,616 (2009: 6,663) employees where contributions are made by the Bank and employees at 8.33% per annum (2009: 8.33% per annum) of the basic salary. During the year, the Bank contributed Rs. 158.724 million (2009: Rs. 148.734 million) in respect of this fund.

The Bank also operates an approved non-contributory provident fund for 2,114 (2009: 2,223) employees who have opted for the new scheme, where contributions are made by the employees at 12% per annum (2009: 12% per annum) of the basic salary.

37.2. MCB Asset Management Company Limited (subsidiary company)

MCB Asset Management Company operates a recognized contribution fund for the permanent employees of the company. Contribution at the rate of 8.33% of the basic salary per annum are made both by the Company and employees to the fund.

37.3. MCB Financial Services Limited (subsidiary company)

The company operates the provident fund scheme covering all permanent employees. Contribution at the rate of 8.33% per annum are made both by the Company and employees to the fund.

38. COMPENSATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for compensation, including all benefits, to the Chief Executive, Directors and Executives of the Group was as follows:

	President / Chief Executive		Directors		Executive	
	2010	2009	2010	2009	2010	2009
	(Rupees in '000)					
Fees	–	–	31,956	10,220	–	–
Managerial remuneration	22,597	38,830	–	1,524	881,610	664,995
Bonus and others	20,654	8,000	–	–	359,691	229,193
Retirement benefits	1,866	1,759	–	–	688,167	385,120
Rent and house maintenance	10,078	9,502	–	–	320,653	239,822
Utilities	2,239	2,111	–	–	68,801	52,362
Medical	–	–	–	–	20,007	16,394
Conveyance	–	417	–	–	314,853	231,325
38.1	57,434	60,619	31,956	11,744	2,653,782	1,819,211
Number of persons	2	1	12	12	734	616

38.1. This includes salary of current president and ex-president.

The Chairman has been provided with free use of Bank's maintained car. The Chief Executive and certain executives are also provided with free use of the Bank's maintained cars and household equipments in accordance with the terms of their employment.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

39. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Bank as 'held to maturity'. Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.3 to these financial statements.

The maturity and repricing profile and effective rates are stated in notes 43.3, 43.4.1 and 43.4.2 respectively.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently re-priced.

40. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activity is as follows:

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Asset Management	Eliminations	Total
	(Rupees in '000)						
2010							
Total income	131,461	22,852,533	13,009,702	25,435,328	259,866	(148,370)	61,540,520
Total expenses	(40,658)	(2,342,292)	(28,676,040)	(3,963,088)	(157,176)	148,370	(35,030,884)
Income tax expense	–	–	–	–	–	–	(9,637,510)
Net income	90,803	20,510,241	(15,666,338)	21,472,240	102,690	–	16,872,126
Segment assets – (Gross of NPL's provision)	45,815	245,386,643	122,651,081	219,013,168	541,450	(775,631)	586,862,526
Advance taxation (payment less provision)	–	–	–	–	–	–	2,549,908
Total assets	45,815	245,386,643	122,651,081	219,013,168	541,450	(775,631)	589,412,434
Segment non performing loans	–	–	7,892,471	16,651,336	–	–	24,543,807
Segment specific provision required	–	–	6,087,441	12,843,130	–	–	18,930,571
Segment liabilities	4,678	20,545,559	437,855,212	25,679,383	26,846	(775,675)	483,336,003
Deferred tax liability	–	–	–	–	–	–	5,146,733
Total liabilities – net	4,678	20,545,559	437,855,212	25,679,383	26,846	(775,675)	488,482,736
Segment return on net assets (ROA) (%)	–	9.31%	11.16%	12.34%	47.99%	–	–
Segment cost of fund (%)	–	10.99%	4.00%	4.96%	–	–	–

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Asset Management	Eliminations	Total
	(Rupees in '000)						
2009							
Total income	100,613	16,431,999	15,550,534	25,447,607	173,150	(126,943)	57,576,960
Total expenses	(32,405)	(3,162,280)	(27,876,512)	(3,172,933)	(110,627)	126,943	(34,227,814)
Income tax expense	-	-	-	-	-	-	(7,683,743)
Net income	68,208	13,269,719	(12,325,978)	22,274,674	62,523	-	15,665,403
Segment assets – (Gross of NPL's provision)	25,023	189,682,676	120,177,858	217,637,300	442,992	(545,626)	527,420,223
Provision for taxation	-	-	-	-	-	-	-
Total assets	25,023	189,682,676	120,177,858	217,637,300	442,992	(545,626)	527,420,223
Segment non performing loans	-	-	7,546,222	15,692,501	-	-	23,238,723
Segment specific provision required	-	-	5,091,169	10,587,176	-	-	15,678,345
Segment liabilities	-	26,794,312	384,048,634	24,825,942	14,143	(545,626)	435,137,405
Provision for taxation	-	-	-	-	-	-	1,089,437
Deferred tax liability	-	-	-	-	-	-	3,201,756
Total liabilities – net	-	26,794,312	384,048,634	24,825,942	14,143	(545,626)	439,428,598
Segment return on net assets (ROA) (%)	-	8.66%	13.51%	12.29%	39.09%	-	-
Segment cost of fund (%)	-	11.57%	3.99%	4.67%	-	-	-

41. RELATED PARTY TRANSACTIONS AND BALANCES

The Group has related party relationship with its associated undertakings, employee benefit plans and its key management personnel (including their associates) and companies with common directors. The detail of investment in associated undertakings are stated in Annexure I (note 6) to these financial statements.

Transactions between the Bank and its related parties are carried at arm's length basis under the comparable uncontrolled price and cost plus method. Details of loans and advances to the companies or firms in which the directors of the Group are interested as directors, partners or in case of private companies as members, are given in note 10.6 to these financial statements. There are no transactions with key management personnel other than under their terms of employment. Contributions to and accruals in respect of staff retirement and other benefit plans are made in accordance with the actuarial valuation / terms of the contribution plan as disclosed in notes 36 and 37. Remuneration to executives is disclosed in note 38 to these financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	Directors		Associated companies		Other related parties	
	2010	2009	2010	2009	2010	2009
(Rupees in '000)						
A. Balances						
Deposits						
Deposits at beginning of the year	1,394,294	426,196	789,205	865,239	18,231,801	11,028,883
Deposits received during the year	51,883,458	20,156,909	108,743,238	139,291,264	224,429,580	223,951,868
Deposits repaid during the year	(51,182,696)	(19,188,811)	(108,577,429)	(139,367,298)	(217,899,244)	(216,748,950)
Deposits at end of the year	2,095,056	1,394,294	955,014	789,205	24,762,137	18,231,801
Mark-up expense on deposits	227,084	33,359	74,666	45,945	2,136,360	1,362,792
Advances (secured)						
Balance at beginning of the year	-	-	-	-	-	-
Loans granted during the year	-	-	-	-	-	-
Repayments received during the year	-	-	-	-	-	-
Balance at end of the year	-	-	-	-	-	-
Markup income of advances	-	-	-	-	-	-
Receivable from Pension fund	-	-	-	-	12,542,560	9,322,304
B. Other transactions (including profit and loss related transactions)						
Associates						
Adamjee Insurance Company Limited						
- Insurance premium paid - net of refund	-	-	285,131	243,658	-	-
- Insurance claim settled	-	-	166,315	150,520	-	-
- Rent income received	-	-	6,954	8,942	-	-
- Dividend received	-	-	85,171	78,917	-	-
- Outstanding commitments and contingent liabilities	-	-	4,842	4,451	-	-
- Purchase of Vehicle	-	-	26,000	-	-	-
Mayban International Trust (Labuan) Berhad						
- Dividend paid	-	-	-	-	1,776,139	1,350,795
- Bonus shares issued	-	-	-	-	138,221	125,655
- Forward foreign exchange contracts (Notional)	-	-	-	-	-	3,408,431
- Unrealized loss on forward foreign exchange contracts	-	-	-	-	-	36,213
Other related parties						
MCB Employees Security System and Services (Private) Limited						
- Security guard expenses	-	-	-	-	168,823	146,508
MCB Employees Foundation						
- Stationery expenses	-	-	-	-	121,791	111,100
- Service expenses	-	-	-	-	17,287	16,750
- Cash sorting expenses	-	-	-	-	28,027	21,597
- Advance receivable	-	-	-	-	20,000	20,000
- Cash in transit expenses	-	-	-	-	220	801
- Payable for stationery expenses	-	-	-	-	394	-
- Proceeds from sale of fixed assets	-	-	-	-	178	-
- Gain on sale of fixed assets	-	-	-	-	56	-
Others						
Dividend income	-	-	-	-	143,136	28,694
Advisory fee received	-	-	3,428	-	13,696	-
Proceeds from sale of vehicles to key management personnel	-	-	-	-	6,003	-
Gain on sale of vehicles to key management personnel	-	-	-	-	-	-
Remuneration of key management personnel (other than directors)	-	-	-	-	229,195	219,228
Contribution to provident fund	-	-	-	-	158,724	148,734
Other miscellaneous expenses	-	-	-	-	112,613	125,140

The details of director's compensations are given in note 38 to these financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

42. CAPITAL ASSESSMENT AND ADEQUACY

42.1 Scope of Applications

The Basel II Framework is applicable to the bank both at the consolidated level (comprising of wholly/partially owned subsidiaries & associates undertaking) and also on a stand alone basis. Subsidiaries are included while calculating Consolidated Capital Adequacy for the Bank using full consolidation method whereas associates in which the bank has significant influence on equity method. Standardized Approach is used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes.

42.2 Capital Management

Objectives and goals of managing capital

The objectives and goals of managing capital of the Group are as follows:

- to be an appropriately capitalized institution, as defined by regulatory authorities and comparable to the peers;
- maintain strong ratings and to protect the Bank against unexpected events;
- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- achieve low overall cost of capital with appropriate mix of capital elements.

Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No.07 of 2009 dated April 15, 2009 requires the minimum paid up capital (net of losses) for all locally incorporated banks to be raised to Rs. 10 billion by the year ending on December 31, 2013. The raise is to be achieved in a phased manner requiring Rs. 7 billion paid up capital (net of losses) by the end of the financial year 2010. The paid up capital of the Bank for the year ended December 31, 2010 stands at Rs. 7.6 billion and is in compliance with the SBP requirement for the said year. In addition the banks are also required to maintain a minimum capital adequacy ratio (CAR) of 10 % of the risk weighted exposure. The Group's CAR as at December 31, 2010 is 22.04 % of its risk weighted exposure.

Bank's regulatory capital is analysed into two tiers.

- Tier 1 capital, which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves as per the financial statements and net unappropriated profits, etc after deductions for deficit on revaluation of available for sale investments and 50% deduction for investments in the equity of subsidiary companies and significant minority investments in entities engaged in banking and financial activities and reciprocal investments advised by BSD circular letter No.6 of 2010 by SBP.
- Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25 % of risk weighted assets), reserves on revaluation of fixed assets and equity investments up to a maximum of 45 % the balance, foreign exchange translation reserves, etc after 50% deduction for investments in the equity of subsidiary companies and significant minority investments in entities engaged in banking and financial activities.

Tier 3 capital has also been prescribed by the State Bank of Pakistan. However, the bank currently does not have any Tier III capital.

The Capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 30 dated November 25, 2008 and BSD Circular No.07 of 2009 dated April 15, 2009. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

The required capital adequacy ratio (10% of the risk-weighted assets) is achieved by the Bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk, market risk and operational risk.

The calculation of capital adequacy enables the Bank to assess the long-term soundness. As the bank carry on the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across entire organization and aggregate the risks so as to take an integrated approach/view. Maximization of the return on risk-adjusted capital is the principal basis to be used in determining how capital is allocated within the Bank to particular operations or activities.

The Bank has complied with all externally imposed capital requirements through out the year. Further, there has been no material change in the Bank's management of capital during the year.

	Note	2010 (Rupees in '000)	2009
42.3 Capital Structure			
Tier 1 Capital			
Shareholders equity /assigned capital		7,602,150	6,911,045
Share premium		9,702,528	9,702,528
Reserves		30,114,399	28,427,081
Unappropriated profits		23,458,429	17,821,670
Minority interest		2,698	71
		70,880,204	62,862,395
Deductions:			
Book value of intangible		470,176	311,699
Other deductions	42.3.1	1,899,200	1,709,335
		2,369,376	2,021,034
Total Tier 1 capital		68,510,828	60,841,361
Tier 2 Capital			
General provisions subject to 1.25% of total risk weighted assets		661,764	794,424
Revaluation reserves up to 45%		5,382,131	4,451,016
Foreign exchange translation reserves		347,599	258,047
		6,391,494	5,503,487
Deductions:			
Other deductions	42.3.1	1,891,335	1,709,335
Total Tier 2 Capital		4,500,159	3,794,152
Total Regulatory Capital Base	A	73,010,987	64,635,513

42.3.1 Other deduction includes investments in equity of financial subsidiaries not consolidated in the statement of financial position and significant minority investments in banking, securities and other financial entities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

42.4 Capital Adequacy

The risk weighted assets to capital ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy was as follows:

		Capital Requirements		Risk Weighted Assets	
		2010	2009	2010	2009
(Rupees in '000)					
Credit Risk					
Portfolios subject to standardized approach (simple or comprehensive)					
On-Balance Sheet					
Corporate portfolio		12,442,059	10,935,744	115,347,246	101,485,148
Banks / DFIs		444,793	1,071,946	4,123,566	9,947,804
Public sector entities		331,094	378,629	3,069,491	3,513,725
Sovereigns / cash & cash equivalents		538,035	642,809	4,987,985	5,965,352
Loans secured against residential property		189,815	199,068	1,759,731	1,847,383
Retail		3,174,235	3,656,141	29,427,544	33,929,470
Past due loans		660,500	830,629	6,123,329	7,708,344
Operating fixed assets		2,227,712	1,923,276	20,652,563	17,848,263
Other assets		2,138,138	2,387,601	19,822,149	22,157,254
		22,146,382	22,025,843	205,313,604	204,402,743
Off-Balance Sheet					
Non-market related		3,180,781	4,051,134	29,488,233	37,595,057
Market related		18,147	23,350	168,239	216,690
		3,198,928	4,074,484	29,656,472	37,811,747
Equity Exposure Risk in the Banking Book					
Listed		219,781	92,317	2,037,538	856,713
Unlisted		81,425	79,541	754,869	738,152
		301,206	171,858	2,792,407	1,594,865
Total Credit Risk		25,646,515	26,272,185	237,762,483	243,809,355
Market Risk					
Capital requirement for portfolios subject to standardized approach					
Interest rate risk		684,116	930,563	8,551,446	11,632,039
Equity position risk		774,505	697,195	9,681,311	8,714,947
Foreign exchange risk		157,520	765,954	1,969,001	9,574,417
Total Market Risk		1,616,141	2,393,712	20,201,758	29,921,403
Operational Risk					
Capital requirement for operational risks		5,864,928	5,171,286	73,311,602	64,641,080
Total	B	33,127,584	33,837,183	331,275,843	338,371,838

		2010	2009
		(Rupees in '000)	
Capital Adequacy Ratio			
Total eligible regulatory capital held	A	73,010,987	64,635,513
Total Risk Weighted Assets	B	331,275,843	338,371,838
Capital Adequacy Ratio	A / B	22.04%	19.10%

* As SBP capital requirement of 10% (2009 : 10%) is calculated on overall basis therefore, capital charge for credit risk is calculated after excluding capital requirements against market and operational risk from the total capital required.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

43 RISK MANAGEMENT

MCB defines risk as any deviation from an anticipated outcome that may affect the value, capital or earnings of the Bank. Identifying and managing exposure to risk is an integral part of strategic and operational activities of risk management. Bank's risk management policy is aimed at setting the best course of action under uncertainty by identifying, prioritizing, mitigating and monitoring risk issues. With the goal of enhancing shareholders' value, following are the five guiding principles of robust risk management structure:

- Optimizing risk/return in a controlled manner
- Establishing clear responsibility and accountability
- Establishing independent and properly resourced risk management function.
- Promoting open risk culture
- Adopting international best practices in risk management

Keeping in view dynamics of internal and external environment, the bank regularly reviews and updates policy manuals / frameworks and procedures in accordance with domestic regulatory environment and international standards.

The Bank executes its risk strategy and undertakes controlled risk-taking activities within its risk management framework. This framework combines core policies, procedures and process design with broad oversight and is supported by risk monitoring across the bank. The Board of Directors and its relevant committee, i.e. the Risk Management & Portfolio Review Committee (RM&PRC) and the senior management and its relevant committees, i.e. the Management Committee (MC), Asset Liability Committee (ALCO), etc., are responsible to ensure formulation and implementation of comprehensive Risk Management Framework. This framework is based on prudent risk identification, measurement, management and monitoring process which are closely aligned with the activities of the bank so as to ensure that risks are kept within an acceptable level.

As part of risk assessment process, the Bank ensures that not only the relevant risks are identified but their implications are considered and basis provided for managing and measuring the risks. Through Internal Control units, the Bank ensures that effective controls are in place to mitigate each of the identified risk.

Independent from business groups, Head of Risk Management reports functionally to the Risk Management & Portfolio Review Committee (RM&PRC) and administratively to the President; the RM&PRC committee convenes regularly to evaluate bank's risk and portfolio concentrations. The Risk Management Group performs the following critical functions:

- Credit Risk Management
- Credit Review
- Credit Risk Control
- Market Risk Management
- Operational Risk Management

In line with regulatory guidelines under Pillar II of the Basel framework, the Bank has initiated Internal Capital Adequacy Assessment Process (ICAAP).

In context of the financial services industry and the requirements laid down via BSD Circular No. 03 of 2007 dated April 14, 2007 by the State Bank of Pakistan (SBP) and Pillar II of Basel II, defining and operationalising risk appetite has assumed critical importance. The financial industry is now widely seen recognizing the importance of articulating risk appetite and also linking it to limit setting, risk control and performance measurement.

Keeping in view the international best practices and SBP requirements, Board of Directors of the Bank has approved a Risk Appetite Statement, which takes into account quantitative and qualitative risk indicators, covering target ratios, credit, market, operational, liquidity and business risks.

43.1 Credit Risk

Credit risk arises from our dealings with individuals, corporate, financial institutions, sovereigns etc. The Bank is exposed to credit risk through its lending and investment activities. It also stems from activities both on and off-balance sheet activities. Credit risk makes up the largest part of the Bank's exposure. Purpose of credit risk function is to identify measure, manage, monitor and mitigate credit risk. Organizational structure of this function ensures pre and post-facto management of credit risk. While, Credit Review function provides pre-fact evaluation of counterparties, the Credit Risk Control (CRC) performs post-fact evaluation of financing facilities and review clients' performance as an ongoing process.

The Bank has adopted standardized approach to measure Credit risk regulatory charge in compliance with Basel-II requirements. The approach is reliant upon the assessment of external credit rating agencies. In line with SBP guidelines on Internal Credit Ratings Systems the Bank has developed a system and all its corporate borrowers are internally rated. Bank is in the process of continuously improving the system and bringing it inline with the Basel framework requirements.

In order to manage bank's credit risk, the bank has the following policies and procedures in place:

- Individuals who take or manage risks clearly understand them in order to protect the Bank from avoidable risks;
- The approval of credit limits to counter parties are subject to pre-fact review;
- Extension in credit facility or material change to the credit facility is subject to credit review;
- Approval and review process is reviewed by RM&PRC and internal audit;
- Management periodically reviews the powers of credit approving and credit reviewing authorities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

As a part of credit assessment, Bank uses internal rating framework as well as the ratings assigned by the external credit rating agencies, wherever available.

Ongoing administration of the credit portfolio is an essential part of the credit process that supports and controls extension and maintenance of credit. The Bank's Credit Risk Control, being an independent function from the business and operations groups, is responsible for performing following activities:

- Credit disbursement authorization;
- Collateral coverage and monitoring;
- Compliance of loan covenants/ terms of approval;
- Maintenance/ custody of collateral and security documentation.

Credit Risk Monitoring is based on a comprehensive reporting framework, continuous monitoring of the credit portfolio and the risks attached thereto are carried out at different levels including businesses, Audit & Risk Assets Review, Credit Risk Control, Credit Risk Management Division, etc.

To ensure a prudent distribution of asset portfolio, the Bank manages its lending and investment activities within a framework of risk profile benchmarks. Per party exposure limit is maintained in accordance with SBP Prudential Regulation R-1.

The Bank creates specific provision against Non-Performing Loans (NPLs) in accordance with the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include general provision against consumer loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on advances. Please refer note No. 10.4 for reconciliation of changes in specific and general provisions.

Management of Non-Performing Loans

The Bank has a Special Asset Management Group (SAMG), which is responsible for management of non performing loans. SAMG undertakes restructuring / rescheduling of problem loans, as well as litigation both civil and criminal cases for collection of debt.

Stress Testing

The Bank also conducts stress testing of its existing portfolio, which includes all assets, i.e., advances as well as investments. This exercise is conducted on a semi-annual basis through assigning shocks to all assets of the Bank and assessing its resulting affect on capital adequacy inline with SBP requirements.

43.1.1 Segmental information

Segmental Information is presented in respect of the class of business and geographical distribution of advances (gross), deposits, contingencies and commitments.

	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
43.1.1.1 Segments by class of business						
Agriculture, forestry, hunting and fishing	2,541,907	0.93	39,865,496	9.24	366,696	0.27
Mining and quarrying	157,736	0.06	371,755	0.09	388,575	0.29
Textile	40,354,192	14.72	1,669,316	0.39	26,185,570	19.22
Chemical and pharmaceuticals	12,990,612	4.74	1,600,137	0.37	5,219,494	3.83
Cement	3,648,217	1.33	30,564	0.01	694,911	0.51
Sugar	9,062,880	3.31	728,325	0.17	734,344	0.54
Footwear and leather garments	2,782,358	1.01	164,847	0.04	1,017,338	0.75
Automobile and transportation equipment	476,630	0.17	510,051	0.12	760,204	0.56
Electronics and electrical appliances	2,202,681	0.80	168,801	0.04	756,986	0.56
Construction	—	—	—	—	—	—
Power (electricity), gas, water, sanitary	36,348,248	13.26	724,626	0.17	4,617,725	3.39
Wholesale and Retail Trade	22,119,616	8.07	33,258,336	7.71	3,143,491	2.31
Exports / imports	—	—	—	—	—	—
Transport, storage and communication	67,013,507	24.44	461,437	0.11	2,952,413	2.17
Financial	4,268,631	1.56	5,565,744	1.29	38,254,338	28.08
Insurance	426	0.00	1,612,642	0.37	8,429	0.01
Services	4,536,701	1.65	90,629,594	21.01	2,791,931	2.05
Individuals	22,007,235	8.03	223,040,400	51.71	18,413	0.01
Others	43,646,229	15.92	30,893,428	7.15	48,334,739	35.47
	274,157,806	100	431,295,499	100	136,245,597	100

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

	2009					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
Agriculture, forestry, hunting and fishing	2,606,240	0.97	34,509,866	9.39	1,055,277	0.88
Mining and quarrying	611,408	0.23	294,235	0.08	24,942	0.02
Textile	31,377,649	11.63	1,393,648	0.38	4,741,012	3.95
Chemical and pharmaceuticals	15,197,729	5.63	1,013,664	0.28	3,689,010	3.08
Cement	3,886,303	1.44	14,565	0.00	28,633	0.02
Sugar	6,328,298	2.35	438,319	0.12	40,215	0.03
Footwear and leather garments	2,279,204	0.85	208,767	0.06	54,727	0.05
Automobile and transportation equipment	2,293,028	0.85	539,065	0.15	336,712	0.28
Electronics and electrical appliances	2,204,672	0.82	149,539	0.04	318,098	0.27
Construction	2,785,464	1.03	—	—	238,562	0.20
Power (electricity), gas, water, sanitary	37,940,970	14.07	1,461,906	0.40	531,536	0.44
Wholesale and Retail Trade	18,565,483	6.88	33,909,697	9.23	2,202,054	1.84
Exports / imports	4,257,087	1.58	—	—	3,987,621	3.33
Transport, storage and communication	58,748,442	21.78	285,773	0.08	152,713	0.13
Financial	6,866,088	2.55	10,026,720	2.73	44,941,870	37.48
Insurance	1,285	0.00	1,344,562	0.37	2,152	0.00
Services	6,642,802	2.46	62,135,724	16.90	285,914	0.24
Individuals	27,049,649	10.03	195,463,714	53.18	367,077	0.31
Others	40,079,233	14.85	24,391,311	6.63	56,923,762	47.45
	<u>269,721,034</u>	<u>100</u>	<u>367,581,075</u>	<u>100</u>	<u>119,921,887</u>	<u>100</u>

	2010					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
43.1.1.2 Segment by sector						
Public / Government	78,725,414	28.72	14,673,234	3.40	35,044,121	25.72
Private	195,432,392	71.28	416,622,265	96.60	101,201,476	74.28
	<u>274,157,806</u>	<u>100</u>	<u>431,295,499</u>	<u>100</u>	<u>136,245,597</u>	<u>100</u>

	2009					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	(%)	(Rupees in '000)	(%)	(Rupees in '000)	(%)
Public / Government	79,707,503	29.55	11,100,632	3.02	39,390,760	32.85
Private	190,014,673	70.45	356,504,079	96.99	80,531,127	67.15
	<u>269,721,034</u>	<u>100</u>	<u>367,581,075</u>	<u>100</u>	<u>119,921,887</u>	<u>100</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

43.1.1.3 Details of non-performing advances and specific provisions by class of business segment

	2010		2009	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	(Rupees in '000)			
Agriculture, forestry, hunting and fishing	417,169	290,886	713,511	384,054
Mining and quarrying	—	—	2,176	2,021
Textile	4,258,684	3,691,316	3,862,699	3,329,483
Chemical and pharmaceuticals	148,866	148,866	153,231	145,779
Cement	531,715	265,857	—	—
Sugar	1,160,081	1,059,540	1,177,714	557,152
Footwear and leather garments	128,292	128,292	118,061	101,686
Automobile and transportation equipment	114,482	84,721	133,671	77,419
Electronics and electrical appliances	323,271	322,558	338,647	321,521
Construction	127,404	116,056	68,039	60,621
Power (electricity), gas, water, sanitary	2,000	500	—	—
Wholesale and retail trade	4,516,086	4,254,729	5,010,321	3,453,025
Exports / imports	320,868	316,530	442,731	408,280
Transport, storage and communication	139,397	69,707	49,240	44,012
Financial	1,275,315	998,750	869,818	766,750
Services	615,006	568,668	479,395	349,113
Individuals	3,605,321	2,778,450	2,804,634	2,018,306
Others	6,859,850	3,835,145	7,014,835	3,659,123
	<u>24,543,807</u>	<u>18,930,571</u>	<u>23,238,723</u>	<u>15,678,345</u>

43.1.1.4 Details of non-performing advances and specific provisions by sector

Public/ Government	—	—	—	—
Private	<u>24,543,807</u>	<u>18,930,571</u>	<u>23,238,723</u>	<u>15,678,345</u>
	<u>24,543,807</u>	<u>18,930,571</u>	<u>23,238,723</u>	<u>15,678,345</u>

43.1.1.5 Geographical segment analysis

	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & Commitments
	(Rupees in '000)			
Pakistan	26,042,663	559,103,595	81,631,190	134,065,828
Asia Pacific (including South Asia)	292,553	8,241,765	297,520	1,737,926
Middle East	212,466	2,978,875	18,046	441,843
Eurasia (Azerbaijan)	(38,046)	157,628	52,371	—
	<u>26,509,636</u>	<u>570,481,863</u>	<u>81,999,127</u>	<u>136,245,597</u>

	2009			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & Commitments
	(Rupees in '000)			
Pakistan	22,538,236	498,216,844	69,189,718	115,393,307
Asia Pacific (including South Asia)	355,775	7,117,974	357,914	2,877,120
Middle East	260,934	3,888,909	192,381	1,651,460
	<u>23,154,945</u>	<u>509,223,727</u>	<u>69,740,013</u>	<u>119,921,887</u>

Total assets employed include intra group items of Rs. NIL (2009: Rs. NIL).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

43.1.2 Credit Risk – General Disclosures

The Bank has adopted Standardized approach of Basel II for calculation of capital charge against credit risk in line with State Bank requirements.

43.1.2.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

Under standardized approach, the capital requirement is based on the credit rating assigned to the counterparties by the External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. Bank utilizes, wherever available, the credit ratings assigned by the SBP recognized ECAIs, viz. PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company– Vital Information Systems), Fitch, Moody's and Standard & Poors. Credit rating data for advances is obtained from recognized External Credit Assessment Institutions and then mapped to State Bank of Pakistan's Rating Grades.

Type of Exposures for which the ratings from the External Credit Rating Agencies are used by the Bank.

Exposures	JCR-VIS	PACRA	OTHER (S&P / Moody's / Fitch)
Corporate	Yes	Yes	–
Banks	Yes	Yes	Yes
Sovereigns	–	–	Yes
SME's	Yes	Yes	–

The criteria for transfer public issue ratings onto comparable assets in the banking book and the alignment of the alphanumerical scale of each agency used with risk buckets is the same as specified by the banking regulator SBP in BSD Circular No.8 table 2.3.

Long – Term Ratings Grades Mapping

SBP Rating Grade	PACRA	JCR-VIS	Fitch	Moody's	S&P	ECA Scores
1	AAA AA+ AA AA–	AAA AA+ AA AA–	AAA AA+ AA AA–	Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA–	1
2	A+ A A–	A+ A A–	A+ A A–	A1 A2 A3	A+ A A–	2
3	BBB+ BBB BBB–	BBB+ BBB BBB–	BBB+ BBB BBB–	Baa1 Baa2 Baa3	BBB+ BBB BBB–	3
4	BB+ BB BB–	BB+ BB BB–	BB+ BB BB–	Ba1 Ba2 Ba3	BB+ BB BB–	4
5	B+ B B–	B+ B B–	B+ B B–	B1 B2 B3	B+ B B–	5,6
6	CCC+ and below	CCC+ and below	CCC+ and below	Caa1 and Below	CCC+ and below	7

Short – Term Ratings Grades Mapping

SBP Rating Grade	PACRA	JCR-VIS	Fitch	Moody's	S&P
S1	A–1	A–1	F1	P–1	A–1+, A–1
S2	A–2	A–2	F2	P–2	A–2
S3	A–3	A–3	F3	P–3	A–3
S4	Others	Others	Others	Others	Others

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

Credit Exposures subject to Standardised approach

Exposures	Rating	2010			2009		
		Amount Outstanding	Deduction CRM	Net amount	Amount Outstanding	Deduction CRM	Net amount
		(Rupees in '000)					
Corporate							
	1	8,813,855	–	8,813,855	14,146,516	–	14,146,516
	2	11,067,495	–	11,067,495	5,160,828	–	5,160,828
	3,4	1,736,237	–	1,736,237	764,389	–	764,389
	5,6	–	–	–	798,230	–	798,230
Unrated	106,314,490	–	106,314,490	94,113,697	–	94,113,697	
Bank							
	1	18,116,727	–	18,116,727	14,541,435	–	14,541,435
	2,3	929,748	–	929,748	436,070	–	436,070
	4,5	943	–	943	928	–	928
	6	6,344	–	6,344	4,108,093	–	4,108,093
Unrated	96,815	–	96,815	2,497,023	–	2,497,023	
Public Sector Entities in Pakistan							
	1	3,039,527	–	3,039,527	6,986,305	–	6,986,305
	2,3	–	–	–	–	–	–
	4,5	–	–	–	–	–	–
	6	–	–	–	–	–	–
Unrated	81,068,380	76,145,209	4,923,171	75,506,214	71,273,287	4,232,927	
Sovereigns and on Government of Pakistan or provincial governments or SBP or Cash							
	1	37,863,577	–	37,863,577	33,010,037	–	33,010,037
	2	–	–	–	–	–	–
	3	–	–	–	–	–	–
	4,5	4,987,985	–	4,987,985	5,965,352	–	5,965,352
6	–	–	–	–	–	–	
Unrated	–	–	–	–	–	–	
Mortgage		5,027,804	–	5,027,804	5,278,238	–	5,278,238
Retail		39,236,725	–	39,236,725	45,239,293	–	45,239,293

43.1.3 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Bank does not make use of on and off-balance sheet netting in capital charge calculations under Basel-II's Standardized Approach for Credit Risk.

43.1.3.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

The Bank has strong policies and processes for collateral valuation and collateral management thus ensuring that collateral valuation happens at regular defined intervals. Collaterals are normally held for the life of exposure. Regular monitoring of coverage of exposure by the collateral and lien/ charge registered over the collaterals is carried out besides ensuring that collateral matches the purpose, nature and structure of the transaction and also reflect the form and capacity of the obligor, its operations, nature of business and economic environment. The Bank mitigates its risk by taking collaterals that may include assets acquired through the funding provided, as well as cash, government securities, marketable securities, current assets, fixed assets, and specific equipment, commercial and personal real estate.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

The Standardized Approach of Basel-II guidelines allows the Bank to take benefit of credit risk mitigation of financial collaterals against total exposures in the related loan facilities. As a prudent and conservative measure while calculating capital charge for credit risk of on statement of financial position activities, bank has taken only the benefit of Sovereign guarantee.

MCB manages limits and controls concentrations of credit risk as identified, in particular, to individual counterparties and groups, and also reviews exposure to industry sectors and geographical regions on a regular basis. Limits are applied in a variety of forms to portfolios or sectors where MCB considers it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth.

Concentration of risk

Out of the total financial assets of Rs. 530,822.341 million (2009: Rs. 478,825.753 million) the financial assets which are subject to credit risk amounting to Rs. 520,179.087 million (2009: Rs. 468,661.336 million). To manage credit risk the bank applies credit limits to its customers and obtains adequate collaterals. Investments amounting to Rs. 199,088.205 million (2009: Rs. 152,915.75 million) are guaranteed by the Government of Pakistan. In addition, an amount of Rs. 24,393.181 million (2009: Rs. 20,916.298 million) are held by the Bank with the State Bank of Pakistan and central banks of other countries.

43.1.3.2 Equity position risk in the banking book

The Group takes proprietary equity positions for both trading and strategic purposes. The Group has invested in its associated companies to achieve long term strategic objectives. As of December 31, 2010 the composition of equity investments in associated companies is as follows:

Composition of equity investments

Exposures	Held for trading	Available for Sale	Associates
Equity investments – publicly traded	348,530	6,868,869	3,703,265
Equity investments – others	–	523,915	63,300
Total value	348,530	7,392,784	3,766,565

Classification of equity investments

The Group classify its equity investment portfolio in accordance with the directives of SBP as follows:

- Investments – Held for trading
- Investments – Available for sale
- Investments in associates

Policies, valuation and accounting of equity investments

The accounting policies for equity investments are designed and their valuation is carried out under the provisions and directives of State Bank of Pakistan, Securities and Exchange Commission of Pakistan and the requirements of approved International Accounting Standards as applicable in Pakistan.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than investments in subsidiaries and investments in associates are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the statement of financial position below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realized upon disposal. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account currently.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

The cumulative realized gain of Rs. 378.189 million has been charged to profit & loss account from sale of equity securities; however unrealized gain of Rs. 1,170.485 million was recognized in the statement of financial position in respect of "AFS" securities. Further a provision for impairment in value of equity investments amounting to Rs. 195.769 million has been charged to profit and loss account.

43.2 Market Risk Management

Market risk arises from changes in market rates (such as Interest Rates, Foreign Exchange Rates and Equity Prices) as well as their correlations and volatilities. MCB is exposed to market risk primarily through its trading activities, which are centered in the Treasury and Foreign exchange and Capital market groups. Market risk also arises from market-making, facilitation of client business and proprietary positions in equities, fixed income and interest rate products and foreign exchange, which exposes bank to interest rate risk, foreign exchange risk and equity price risk. Market risk is also assumed as a result of bank's statement of financial position and capital management activities.

The Bank's Market Risk Management structure consists of Risk Management Committee of the Board, ALCO, and independent Market Risk Management Division reporting directly to Group Head Risk Management. Market Risk Management Division is responsible for policy formulation, controlling of market risk including monitoring of exposures against limits; assessment of risks in new business; developing procedures, market risk measurement and reporting system. Market risk authority, including both approval of market risk limits and approval of market risks is vested in the ALCO.

As per SBP instructions (BSD Circular 8, 2006) trading book shall consist of positions in financial instruments held with trading intent or in order to hedge other elements of the trading book. Hence the bank has clearly defined, in its Risk Management policy, the positions which shall be subject to market risk. The definition covers the accounting classifications as well as positions booked by different business groups under "Available for Sale" category. The assets subject to trading book treatment are frequently valued and actively managed. The positions which does not fulfill the criteria of Trading book falls under the Banking Book and are treated as per SBP requirements.

The Bank measures and manages Market risk by using conventional methods i.e. notional amounts and sensitivity. Bank has established a specific Market Risk Limit Policy providing guideline for assuming controlled market risk, its monitoring and management. A reasonable number of limits are set and approved. These Limits are compared with the numbers generated by the market risk management system based on the trading activity and the outstanding position on risk measurement date.

Besides conventional methods, the Bank uses VaR (Value at Risk) technique for market risk assessment of assets booked by its treasury and capital market groups. In-house and vendor based solutions are used for calculating mark to market value of positions and generating VaR (value at risk) and sensitivity numbers. Variance co-variance approach of VaR measure for conventional products and Monte Carlo simulation approach for derivative and structured products are being used by the bank.

Stress testing of both banking and trading books as per SBP guidelines is a regular feature.

The Bank is exposed to interest rate risk both in trading and banking books. Risk numbers along with the marked to market values of government securities held by the Bank's treasury are generated on daily basis. The risk numbers include duration, PVB, and VaR on individual security basis as well as on portfolio basis. These reports are presented to the senior management for review on a daily basis.

43.2.1 Foreign Exchange Risk Management

Foreign exchange risk represents exposures the bank has due to changes in the values of current holdings and future cash flows denominated in currencies other than home currency. The types of instruments exposed to this risk include investments in foreign branches, foreign currency-denominated loans, foreign currency-denominated deposits, future cash flows in foreign currencies arising from foreign exchange transactions, etc.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

The core objective of foreign exchange risk management is to ensure the foreign exchange exposure of the Bank remain within defined risk appetite and insulate bank against losses that may arise due to volatile movements in foreign exchange rates or interest rates.

Limit structure to manage Foreign exchange risk is in place. Gap limits on different tenures have been introduced for USD exposures. Gap limit for other major currencies will be introduced depending upon the significance of exposure in that currency. Bank's net open position and Foreign exchange exposure limit (FEEL) is monitored and reported on daily basis. Additionally, daily reports are generated to evaluate the exposure in different currencies. Risk management system generates VaR and PVBP numbers for foreign exchange portfolio to estimate the potential loss under normal conditions. Stress testing of foreign exchange portfolio is also performed and reported to senior management. All these activities are performed on a daily basis.

	2010			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	548,453,111	468,165,682	1,740,181	82,027,610
United States Dollar	20,287,895	13,921,115	(6,665,221)	(298,441)
Pound Sterling	473,095	2,170,830	1,696,111	(1,624)
Japanese Yen	544	44,138	47,434	3,840
Euro	820,530	4,002,992	3,181,495	(967)
Other currencies	446,688	177,979	–	268,709
	<u>570,481,863</u>	<u>488,482,736</u>	<u>–</u>	<u>81,999,127</u>

	2009			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	496,129,114	422,518,507	(1,108,310)	72,502,297
United States Dollar	14,317,231	11,828,720	(2,779,180)	(290,669)
Pound Sterling	277,235	1,870,038	1,596,226	3,423
Japanese Yen	109,825	167	(109,376)	282
Euro	762,031	3,211,166	2,504,675	55,540
Other currencies	146,442	–	(104,035)	42,407
	<u>511,741,878</u>	<u>439,428,598</u>	<u>–</u>	<u>72,313,280</u>

43.2.2 Equity Price Risk

Bank's proprietary positions in the equity instruments expose it to the equity price risk in its trading and banking books. Equity price risk is managed by applying trading limit, scrip-wise and portfolio wise nominal limits. VaR numbers generation and stress testing of the equity portfolio are also performed and reported to senior management on daily basis. The stress test for equity price risk assesses the impact of the fall in the stock market index. This exercise is done on internal based assumptions in addition to the criteria advised by the State Bank of Pakistan for Stress Testing on Equities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

43.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

Yield / interest rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.

	Effective Yield/ Interest rate	Total	2010								Not exposed to Yield/ Interest Risk		
			Exposed to Yield/ Interest risk										
			Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years		Above 10 years	
(Rupees in '000)													
On-balance sheet financial instruments													
Assets													
	0%	45,407,264	2,974,767	-	-	-	-	-	-	-	-	-	42,432,497
	0.55% to 3%	1,551,518	477,203	-	-	-	-	-	-	-	-	-	1,074,315
	12.80% to 13.50%	4,401,781	1,510,027	-	2,891,754	-	-	-	-	-	-	-	-
	4.5% to 16.12%	211,981,279	52,441,957	69,509,187	77,743,838	1,049,725	1,567,893	2,622,223	-	1,439,615	-	-	5,606,841
	15.00%	254,565,471	152,744,835	50,910,318	38,182,738	12,727,580	-	-	-	-	-	-	-
		12,915,028	-	-	-	-	-	-	-	-	-	-	12,915,028
		530,822,341	210,148,789	120,419,505	118,818,330	13,777,305	1,567,893	2,622,223	-	1,439,615	-	-	62,028,681
Liabilities													
		10,265,537	-	-	-	-	-	-	-	-	-	-	10,265,537
	6 % to 14 %	25,684,593	13,638,811	4,940,120	4,940,120	1,082,771	1,082,771	-	-	-	-	-	-
	5% to 13%	431,295,499	221,072,648	16,906,178	13,768,970	23,497,887	930,669	669,222	2,249,840	1,045,299	-	-	151,154,766
		12,920,223	-	-	-	-	-	-	-	-	-	-	12,920,223
		480,165,852	234,711,459	21,846,298	18,709,090	24,580,658	2,013,440	669,222	2,249,840	1,045,299	-	-	174,340,546
		50,656,489	(24,582,670)	98,573,207	100,109,240	(10,803,353)	(445,547)	1,953,001	(2,249,840)	394,316	-	-	(112,311,865)
On-balance sheet gap													
Off-balance sheet financial instruments													
		20,154,200	12,279,293	4,980,758	2,226,096	668,052	-	-	-	-	-	-	-
		76,563	-	-	-	-	76,563	-	-	-	-	-	-
		20,230,763	12,279,293	4,980,758	2,226,096	668,052	76,563	-	-	-	-	-	-
		22,245,693	12,917,004	6,180,514	3,148,175	-	-	-	-	-	-	-	-
		76,563	-	-	-	-	76,563	-	-	-	-	-	-
		22,322,256	12,917,004	6,180,514	3,148,175	-	76,563	-	-	-	-	-	-
		(2,091,493)	(637,711)	(1,199,756)	(922,079)	668,052	-	-	-	-	-	-	-
Off-balance sheet gap													
Total yield / interest risk sensitivity gap													
			(25,200,381)	97,373,451	99,187,161	(10,135,301)	(445,547)	1,953,001	(2,249,840)	394,316	-	-	-
Cumulative yield / interest risk sensitivity gap													
			(25,200,381)	72,173,070	171,360,232	161,224,931	160,779,384	162,732,385	160,482,545	160,876,861	160,876,861	-	-

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

43.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

Yield / interest rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.

2009											
Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk								Not exposed to Yield/ Interest Risk	
		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years		Above 10 years
(Rupees in '000)											
On-balance sheet financial instruments											
Assets											
0% 0.12% to 1% 12.35% to 12.70% 4.5% to 14.88% 15.00%	Cash and balances with treasury banks	38,774,871	2,522,549	-	-	-	-	-	-	-	36,252,322
	Balances with other banks	6,077,354	1,017,691	-	-	-	-	-	-	-	5,059,663
	Lendings to financial institutions	3,000,000	2,000,000	-	-	-	-	-	-	-	-
	Investments – net	166,081,637	17,543,637	50,084,055	56,948,201	707,468	1,311,516	2,670,133	2,787,640	-	5,520,498
	Advances – net	253,248,265	151,948,502	50,649,882	37,987,411	12,662,470	-	-	-	-	-
	Other assets – net	11,643,626	-	-	-	-	-	-	-	-	-
	478,825,753	174,032,379	102,733,937	66,495,900	69,610,671	707,468	1,311,516	2,670,133	2,787,640	-	58,476,109
Liabilities											
12.05% to 12.50% 5% to 9.5%	Bills payable	8,201,090	-	-	-	-	-	-	-	-	8,201,090
	Borrowings	44,662,088	33,662,171	4,450,466	1,058,442	1,049,275	-	-	-	-	-
	Deposits and other accounts	367,581,075	179,635,312	9,793,315	37,229,475	835,485	1,292,144	2,309,620	1,454,949	-	128,891,171
	Other liabilities	12,306,709	-	-	-	-	-	-	-	-	-
	432,750,962	213,297,483	14,243,781	10,581,338	38,287,917	1,884,760	1,292,144	2,309,620	1,454,949	-	143,398,970
	46,074,791	(39,265,104)	88,490,156	55,914,562	31,322,754	(1,177,292)	19,372	360,513	1,332,691	-	(90,922,861)
On-balance sheet gap											
Off-balance sheet financial instruments											
Foreign exchange contracts Purchase	23,832,214	11,904,381	10,021,332	1,906,501	-	-	-	-	-	-	-
	83,333	-	-	-	83,333	-	-	-	-	-	-
	124,845	-	-	-	-	124,845	-	-	-	-	-
	24,040,392	11,904,381	10,021,332	1,906,501	83,333	124,845	-	-	-	-	-
Foreign exchange contracts Sale	23,037,004	9,518,707	7,797,744	5,720,553	-	-	-	-	-	-	-
	83,333	-	-	-	83,333	-	-	-	-	-	-
	124,845	-	-	-	-	124,845	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
	23,245,182	9,518,707	7,797,744	5,720,553	83,333	124,845	-	-	-	-	-
	795,210	2,385,674	2,223,588	(3,814,052)	-	-	-	-	-	-	-
Off-balance sheet gap											
Total yield / interest risk sensitivity gap		215,683,157	16,467,369	6,767,286	38,287,917	1,884,760	1,292,144	2,309,620	1,454,949	-	-
Cumulative yield / interest risk sensitivity gap		215,683,157	232,150,526	238,917,812	277,205,729	279,090,489	280,382,633	282,692,253	284,147,202	284,147,202	-

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

Reconciliation to total assets	2010 (Rupees in '000)	2009	Reconciliation to total liabilities	2010 (Rupees in '000)	2009
Balance as per statement of financial position	570,481,863	511,741,878	Balance as per statement of financial position	488,482,736	439,428,598
Less: Non financial assets			Less: Non financial liabilities		
Investments	3,766,565	3,403,010	Other liabilities	3,170,151	3,475,880
Operating fixed assets	21,061,787	18,099,010	Deferred tax liability	5,146,733	3,201,756
Other assets	14,831,170	11,414,105		8,316,884	6,677,636
	39,659,522	32,916,125			
Total financial assets	530,822,341	478,825,753	Total financial liabilities	480,165,852	432,750,962

43.4 Liquidity Risk

Liquidity represents the ability to fund assets and meet obligations as they become due. The Bank understands that liquidity does not come for free, and surplus liquidity has an opportunity cost which needs to be recognized. Liquidity risk is a risk of not being able to obtain funds at a reasonable price within a reasonable time period to meet obligations as they become due. Because liquidity is critical to the ongoing viability of any financial institution, liquidity management is among the most important activities that MCB conducts. MCB recognizes that liquidity risk can arise from the Bank's activities and can be grouped into three categories:

- Inflows/Outflows from on-balance sheet items (other than marketable securities and wholesale borrowings) and off-balance sheet items;
- Marketability of trading securities; and
- Capacity to borrow from the wholesale markets for funding as well as trading activities.

Bank monitors and assesses the impact of increase in NPLs, deposits concentration, deposits withdrawal, decline in earnings, expanded business opportunities, acquisitions and negative reputation, on its liquidity positions.

Liquidity Management

MCB's liquidity risk management framework is designed to identify measure and manage in a timely manner the liquidity risk position of the Bank. The underlying policies and procedures include: Risk Management policy, Treasury and Investment policy, Contingency Funding Plan and Limit Structure which are reviewed and approved regularly by the senior management /Board members. MCB liquidity risk policy envisages to project the Bank's funding position during temporary and long-term liquidity changes, including those caused by liability erosion and explicitly identifying quantifying and ranking all sources of funding preferences, such as reducing assets, modifying or increasing liability structure; and using other alternatives for controlling statement of financial position changes. MCB's liquidity risk management approach involves intraday liquidity management, managing funding sources and evaluation of structural imbalances in statement of financial position structure.

Intraday Liquidity Management

Intraday liquidity management is about managing the daily payments and cash flows. Bank has policies to ensure that sufficient cash is maintained during the day to make payments through local payment system. The policy of the Bank is to maintain adequate liquidity at all times, in all geographical locations and for all currencies and hence to be in a position, in the normal course of business, to meet obligations, repay depositors and fulfill commitments.

Managing Funding Sources

Managing funding sources, as per policy MCB maintain a portfolio of marketable securities that can either be sold outright or sold through a repurchase agreement to generate cash flows for meeting unexpected liquidity requirement. As a part of liquidity management MCB maintains borrowing relationships to ensure the continued access to diverse market of funding sources. MCB's sound credit rating together with excellent market reputation has enabled MCB to secure ample call lines with local and foreign banks. The level of liquidity reserves as per regulatory requirements also mitigates risks. MCB's investment in marketable securities is much higher than the Statutory Liquidity requirements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

43.4.1 Maturities of Assets and Liabilities – Based on contractual maturity of the assets and liabilities of the Bank

	2010									
Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	45,407,264	-	-	-	-	-	-	-	-	-
Balances with other banks	1,551,518	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	4,401,781	1,510,027	2,891,754	-	-	-	-	-	-	-
Investments – net	215,747,844	41,715,017	79,607,464	5,195,050	5,267,577	5,203,638	784,119	4,685,038	3,766,565	
Advances – net	254,565,471	32,677,556	12,553,379	80,993,551	23,826,658	19,863,742	22,173,449	11,319,171	258,977	
Operating fixed assets	21,061,787	131,156	293,128	586,257	1,172,513	1,172,513	2,345,026	5,862,565	9,303,210	
Deferred tax assets	1,228,098	28,399	18,892	389,400	383,669	59,565	92,500	192,955	-	
Other assets – net	27,746,198	5,381,831	126,263	3,173,722	51	-	13,698,392	-	-	
	571,709,961	126,046,440	95,490,880	90,337,980	30,650,468	26,299,458	39,093,486	22,059,729	13,328,752	
Liabilities										
Bills payable	10,265,537	-	-	-	-	-	-	-	-	-
Borrowings	25,684,593	4,940,120	4,940,120	1,082,771	1,082,771	-	-	-	-	-
Deposits and other accounts	431,295,499	16,906,178	13,768,971	23,497,887	930,669	669,222	2,249,840	1,045,298	-	-
Deferred tax liabilities	6,374,831	36,880	55,321	110,647	101,895	101,895	4,593,686	447,854	887,240	
Other liabilities	16,090,374	1,192,525	1,992,157	1,288,856	1,719,647	376,097	733,870	852,493	-	-
	489,710,834	23,075,703	20,756,569	25,980,161	3,834,982	1,147,214	7,577,396	2,345,585	887,240	
Net assets	81,999,127	102,970,737	74,734,311	64,357,819	26,815,486	25,152,244	31,516,090	19,714,144	12,441,512	
Share capital	7,602,150									
Reserves	40,164,526									
Unappropriated profit	23,458,429									
Minority interest	2,698									
Surplus on revaluation of assets – net of tax	10,771,324									
	81,999,127									

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

43.4.1 Maturities of Assets and Liabilities – Based on contractual maturity of the assets and liabilities of the Bank

2009											
Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years		
(Rupees in '000)											
Assets											
Cash and balances with treasury banks	38,774,871	–	–	–	–	–	–	–	–		
Balances with other banks	6,077,354	–	–	–	–	–	–	–	–		
Lendings to financial institutions	3,000,000	2,000,000	–	–	–	–	–	–	–		
Investments – net	169,484,647	50,430,192	30,281,032	59,460,431	5,662,050	3,018,659	4,424,767	5,209,460	3,403,010		
Advances – net	253,248,265	32,495,438	12,489,161	80,579,221	23,704,771	19,762,127	22,060,019	11,261,267	257,651		
Operating fixed assets	18,099,010	88,572	265,717	531,434	1,062,868	1,062,868	2,125,736	5,314,340	7,470,330		
Deferred tax assets	1,622,905	9,082	26,195	332,189	310,006	341,615	394,186	164,474	–		
Other assets – net	23,057,731	4,405,161	201,363	3,460,971	260,081	–	10,478,517	–	–		
	513,364,783	107,542,743	43,263,468	144,364,246	30,999,776	24,185,269	39,483,225	21,949,541	11,130,991		
Liabilities											
Bills payable	8,201,090	–	–	–	–	–	–	–	–		
Borrowings	44,662,088	4,450,466	4,441,734	1,058,442	1,049,275	–	–	–	–		
Deposits and other accounts	367,581,075	9,793,315	6,139,604	37,229,475	852,485	1,292,144	2,309,620	1,454,949	–		
Deferred tax liabilities	4,824,661	36,580	54,870	109,741	221,552	113,768	167,694	3,682,146	420,020		
Other liabilities	15,782,589	6,296,091	1,694,516	2,593,895	1,976,687	443,678	869,033	818,069	–		
	441,051,503	15,370,981	12,330,724	40,991,553	4,099,999	1,849,590	3,346,347	5,955,164	420,020		
Net assets	72,313,280	92,171,762	30,932,744	103,372,693	26,899,777	22,335,679	36,136,878	15,994,377	10,710,971		
Share capital	6,911,045										
Reserves	38,387,656										
Unappropriated profit	17,821,670										
Minority interest	71										
Surplus on revaluation of assets – net of tax	9,192,838										
	72,313,280										

When an asset or liability does not have any contractual maturity date, the period in which these are assumed to mature has been taken as the expected date of maturity.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

43.4.2 Maturities of Assets and Liabilities – Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

	2010									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	45,407,264	45,407,264	–	–	–	–	–	–	–	–
Balances with other banks	1,551,518	1,551,518	–	–	–	–	–	–	–	–
Lendings to financial institutions	4,401,781	1,510,027	–	2,891,754	–	–	–	–	–	–
Investments – net	215,747,844	41,715,017	69,523,376	79,607,464	5,195,050	5,267,577	5,203,638	784,119	4,685,038	3,766,565
Advances – net	254,565,471	32,677,556	50,898,988	12,553,379	80,993,551	23,826,658	19,863,742	22,173,449	11,319,171	258,977
Operating fixed assets	21,061,787	131,156	195,419	293,128	586,257	1,172,513	1,172,513	2,345,026	5,862,565	9,303,210
Deferred tax assets	1,228,098	28,399	62,718	18,892	389,400	383,669	59,565	92,500	192,955	–
Other assets – net	27,746,198	5,381,831	5,365,939	126,263	3,173,722	51	–	13,698,392	–	–
	571,709,961	128,402,768	126,046,440	95,490,880	90,337,980	30,650,468	26,299,458	39,093,486	22,059,729	13,328,752
Liabilities										
Bills payable	10,265,537	10,265,537	–	–	–	–	–	–	–	–
Borrowings	25,684,593	13,638,811	4,940,120	4,940,120	1,082,771	1,082,771	–	–	–	–
Deposits and other accounts	431,295,499	65,086,548	50,524,439	43,874,251	67,655,091	64,654,210	48,339,407	78,023,871	13,137,682	–
Deferred tax liabilities	6,374,831	39,413	36,880	55,321	110,647	101,895	101,895	4,593,686	447,854	887,240
Other liabilities	16,090,374	7,934,789	1,192,525	1,992,157	1,288,856	1,719,647	376,097	733,870	852,433	–
	489,710,834	96,965,098	56,693,964	50,861,849	70,137,365	67,558,523	48,817,399	83,351,427	14,437,969	887,240
Net assets	81,999,127	31,437,670	69,352,476	44,629,031	20,200,615	(36,908,055)	(22,517,941)	(44,257,941)	7,621,760	12,441,512
Share capital	7,602,150									
Reserves	40,164,526									
Unappropriated profit	23,458,429									
Minority interest	2,698									
Surplus on revaluation of assets – net of tax	10,771,324									
	81,999,127									

Refer the sub-note to note 43.4.1 also. Current and saving deposits do not have any contractual maturity. Therefore, current deposits and saving accounts have been classified between all nine maturities. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

43.4.2 Maturities of Assets and Liabilities – Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

		2009								
		(Rupees in '000)								
Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
Assets										
Cash and balances with treasury banks	38,774,871	-	-	-	-	-	-	-	-	
Balances with other banks	6,077,354	-	-	-	-	-	-	-	-	
Lendings to financial institutions	3,000,000	2,000,000	-	-	-	-	-	-	-	
Investments – net	169,484,647	50,430,192	30,281,032	59,460,431	5,662,050	3,018,659	4,424,767	5,209,460	3,403,010	
Advances – net	253,248,265	32,495,438	12,489,161	80,579,221	23,704,771	19,762,127	22,060,019	11,261,267	257,651	
Operating fixed assets	18,099,010	88,572	265,717	531,434	1,062,868	1,062,868	2,125,736	5,314,340	7,470,330	
Deferred tax assets	1,622,905	9,082	26,195	332,189	310,006	341,615	394,186	164,474	-	
Other assets – net	23,057,731	4,405,161	201,363	3,460,971	260,081	-	10,478,517	-	-	
	513,364,783	90,445,524	43,263,468	144,364,246	30,999,776	24,185,269	39,483,225	21,949,541	11,130,991	
Liabilities										
Bills payable	8,201,090	4,450,466	-	-	-	-	-	-	-	
Borrowings	44,662,088	33,662,171	4,441,734	1,058,442	1,049,275	-	-	-	-	
Deposits and other accounts	367,581,075	42,646,512	91,180,668	122,270,538	25,468,818	19,318,014	15,796,725	8,045,411	6,444,890	
Deferred tax liabilities	4,824,661	36,580	54,870	109,741	221,552	113,768	167,694	3,682,146	420,020	
Other liabilities	15,782,589	6,296,091	1,694,516	2,593,895	1,976,687	443,678	869,033	818,069	-	
	441,051,503	84,587,141	97,371,788	126,032,616	28,716,332	19,875,460	16,833,452	12,545,626	6,864,910	
Net assets	72,313,280	5,858,383	(54,108,320)	18,331,630	2,283,444	4,309,809	22,649,773	9,403,915	4,266,081	
Share capital	6,911,045									
Reserves	38,387,656									
Unappropriated profit	17,821,670									
Minority interest	71									
Surplus on revaluation of assets – net of tax	9,192,838									
	72,313,280									

Refer sub-note to note 43.4.1 also. Current and saving deposits do not have any contractual maturity. Therefore, current deposits and saving accounts have been classified between all nine maturities. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2010

43.5 Operational Risk

Operational Risk is risk of loss resulting from an inadequacy or a failure ascribable to people, processes, technology or external events. This definition includes legal risk, but excludes strategic and reputational risk.

Operational Risk Management Division (ORMD) within Risk Management Group (RMG) is primarily responsible for oversight of bank-wide operational risk management. ORMD is independent of revenue generating functions. Although, respective business and support functions are the risk takers / owners, ORMD provides assistance and guidance for proactive operational risk management. The Risk Management Policy and bank-wide Operational Risk Management Framework (ORMF) have been developed in line with international best practices. The policy and framework are reviewed periodically so as to incorporate the current changes.

Major processes for operational risk management include, but not limited to Risk and Control Self Assessment, loss database management, enhancing operational risk awareness through workshops and sessions. ORMD has active coordination with audit and compliance for information sharing on Key Risk Indicators (KRIs) with respect to management of various operational risk aspects within the bank.

43.5.1 Operational Risk-Disclosures Basel II Specific

Currently, the bank is reporting operational risk capital charge under Basic Indicator Approach (BIA). However, a number of initiatives are underway for adoption of The Standardized Approach (TSA) / Alternative Standardized Approach (ASA) like business line mapping, risk and control self assessment exercises.

ORMD initiated the process of collecting loss data on key risk events in the year 2007. Based on periodical analysis of loss data, ORMD generates reports for senior management and Risk Management and Portfolio Review Committee (RM&PRC) of the Board. The report covers the significant risk events, impact analysis and recommendations for improvement in control / risk mitigation.

44. GENERAL

Comparative information has been reclassified and rearranged in these consolidated financial statements for the purpose of comparison. No significant reclassification has been made except for as follows:

Description	Amount (Rs. in 000)	Reclassified	
		From	To
Commission on home remittance	124,092	Other income	Fee, commission and brokerage income
Fee paid to MCI issuer transactions	4,141	Markup / return / interest expense	Administrative expenses

45. NON-ADJUSTING EVENT

The Board of Directors in its meeting held on February 10, 2011 has announced a final cash dividend in respect of the year ended December 31, 2010 of Rs. 3.0 per share (2009: Rs. 3.5 per share) and bonus shares of 10% (2009: 10%). These consolidated financial statements for the year ended December 31, 2010 do not include the effect of these appropriations which will be accounted for subsequent to the year end.

46. DATE OF AUTHORIZATION FOR ISSUE

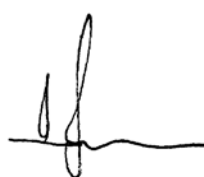
These consolidated financial statements were authorized for issue by the Board of Directors of the Bank in their meeting held on February 10, 2011.



M.U.A. Usmani
President and Chief Executive



S. M. Muneer
Director



Dato' Mohammed Hussein
Director



Mian Umer Mansha
Director

For the year ended December 31, 2010

1 Particulars of Investments in listed companies, mutual funds and modarabas – available for sale

Investee Entities	Note	Number of Ordinary and preference shares/ certificates/ units held	Paid-up value per share/ certificate/ unit	Total paid-up/ nominal value	Cost as at December 31, 2010
			Rupees	(Rupees in '000)	
Fully Paid-up Preference Shares					
Azgard Nine Limited		1,160,241	10	11,602	11,602
Masood Textile Mills Limited	1.1	5,000,000	10	50,000	50,000
					61,602
Fully Paid-up Ordinary Shares					
Abbott Laboratories Pakistan Limited		135,600	10	1,356	25,200
Allied Bank Limited		4,885,721	10	48,857	394,108
Arif Habib Limited		78,337	10	783	13,908
Arif Habib Investments Limited		778,500	10	7,785	14,576
Arif Habib Corporation Limited (formerly Arif Habib Securities Limited)		1,529,875	10	15,299	214,004
Askari Bank Limited		6,429,864	10	64,299	301,018
Atlas Bank Limited		1,512,199	10	15,122	23,352
Attock Petroleum Limited		396,344	10	3,963	124,588
Bank Alfalah Limited		301,735	10	3,017	10,541
Bank Al-Habib Limited		6,668,613	10	66,686	221,373
Century Papers & Board Mills Limited		54,540	10	545	1,556
Fauji Fertilizer Bin Qasim Company Limited		5,400,371	10	54,004	196,917
Fauji Fertilizer Company Limited		8,662,968	10	86,630	726,264
Glaxosmithkline Pakistan Limited		484,672	10	4,847	64,437
Habib Bank Limited		544,760	10	5,448	90,943
Habib Metropolitan Bank Limited		1,160,000	10	11,600	38,678
Ibrahim Fibers Limited		30,000	10	300	1,231
IGI Insurance Company of Pakistan Limited		269,510	10	2,695	42,529
Indus Motor Company Limited		27,027	10	270	5,566
International Industries Limited		344,942	10	3,449	26,427
Kohinoor Energy Limited		55,000	10	550	1,566
Kot Addu Power Company Limited		1,406,600	10	14,066	62,931
Mehr Dastagir Textile Mills Limited		1,616,912	10	16,169	16,169
Maple Leaf Cement Company Limited		3,833,500	10	38,335	68,266
Millat Tractors Limited		182,060	10	1,821	53,686
Oil & Gas Development Company Limited		30,515	10	305	3,020
Packages Limited		39,911	10	399	8,368
Pakistan Cables Limited		42,716	10	427	7,098
Pakistan Oilfields Limited		526,500	10	5,265	137,699
Pakistan Petroleum Limited		574,726	10	5,747	95,668
Pakistan Telecommunication Company Limited		5,053,731	10	50,537	225,135
Pakistan Tobacco Company Limited		49,000	10	490	7,962
Rupali Polyester Limited		658,545	10	6,585	46,475
Soneri Bank Limited		3,943,006	10	39,430	121,456
Sui Northern Gas Pipelines Limited		47,728,822	10	477,288	2,205,253
Samba Bank Limited		30,963,000	10	309,630	147,150
The Bank of Punjab		6,423,100	10	64,231	170,996
Trust Securities & Brokerage Limited		300,000	10	3,000	3,000
Unilever Pakistan Limited		33,280	50	1,664	47,891
United Bank Limited		6,967,440	10	69,674	508,211
Wateen Telecom Limited		7,965,466	10	79,655	79,655
Zulfiqar Industries Limited		30,537	10	305	3,556
Total					6,558,427

For the year ended December 31, 2010

Investee Entities	Name of Management Company	Number of Ordinary and preference shares/ certificates/ units held	Paid-up value per share/ certificate/ unit Rupees	Total paid-up/ nominal value (Rupees in '000)	Cost as at December 31, 2010
Fully Paid-up Modaraba Certificates					
First Al-Noor Modaraba	Al-Noor Modaraba Management (Private) Limited	5,553,270	10	55,532.70	60,606
Total					60,606
Carrying value (before revaluation and provision) listed shares 'available for sale'					6,680,635
Provision for diminution in value of investments					(2,636,770)
Surplus on revaluation of securities					1,089,882
Market value as at December 31, 2010					<u>5,133,747</u>

Fully Paid-up Ordinary Certificate/ Units of Mutual Funds	Name of Management Company	Number of units held	Paid-up value per unit Rupees	Total paid-up/ nominal value (Rupees in '000)	Cost as at December 31, 2010
MCB Dynamic Stock Fund (IPO)	MCB Asset Management Company Limited	1,033,301	100	103,330	82,981
MCB Dynamic Allocation Fund (IPO)	MCB Asset Management Company Limited	1,000,000	100	100,000	100,000
Carrying value before revaluation & provision					182,981
Provision for diminution in value of investments					(85,504)
Surplus on revaluation of securities					80,474
Market value as at December 31, 2009					<u>177,951</u>

- 1.1** These are redeemable after the end of the fourth year from June 2005 at the option of the issuer either in whole or multiples of 10% of outstanding issue at a price of Rs. 10 per share plus any accumulated preference dividend. Dividend rate is 6 months KIBOR + 200 bps per annum.

2 Particulars of Investment in mutual funds – held for trading

	Number of units held	Paid-up value per unit Rupees	Total paid-up/ nominal value (Rupees in '000)	Cost as at December 31, 2010
MCB Dynamic Cash Fund	2,664,780	100	266,478	247,208
MCB Cash Management Optimizer Fund	564,041	100	56,404	50,604
MCB Sarmaya Mehfooz Fund 1	508,527	100	50,853	50,718
			<u>373,735</u>	<u>348,530</u>

For the year ended December 31, 2010

3 Particulars of Investment held in unlisted companies-available for sale

Company Name	Percentage of holding (%)	Number of shares / certificates held	Cost as at December 31, 2010	Net Asset Value of total investment	Based on audited financial statements as at	Name of Chief Executive
(Rupees in '000)						
Shareholding more than 10%						
Fully paid up preference shares						
Fazal Cloth Mills Limited (2.1)	40.00%	10,000,000	100,000	–		Mr. Sheikh Naseem Ahmed
Fully paid up Ordinary Shares/ Certificates/ Units						
Pak Asian Fund Limited	10.22%	1,150,000	11,500	18,764	June 30, 2010	Mr. Ashfaq A. Berdi
Khushhali Bank Limited	17.60%	30,000,000	300,000	362,640	December 31, 2009	Mr. Ghalib Nishtar
Next Capital Limited	10.00%	1,000,000	10,000	9,752	June 30, 2010	Mr. Najam Ali
Central Depository Company of Pakistan Limited	10.00%	5,000,000	10,000	158,389	June 30, 2010	Mr. Mohammad Hanif Jhakura
			331,500			
Shareholding upto 10%						
Fully paid up Ordinary Shares/ Certificates/ Units						
First Capital Investment Limited		250,000	2,500	2,647	June 30, 2010	Mr. Syed Kashan Kazmi
National Institute of Facilitation Technology Private Limited		985,485	1,527	51,952	June 30, 2010	Mr. Mohammad Naeem Malik
National Investment Trust Limited		79,200	100	97,491	June 30, 2010	Mr. Wazir Ali Khoja
SME Bank Limited		1,490,619	10,106	10,212	December 31, 2010	Mr. R. A. Chughtai
Arabian Sea Country Club		500,000	5,000	4,481	June 30, 2010	Mr. Arif Ali Khan Abbasi
Society for Worldwide Inter Fund Transfer (SWIFT)		18	1,738	5,276	December 31, 2009	Mr. Lazara Campos
Credit Information Bureau of Sri Lanka		300	23	5,421	March 31, 2009	Mr. G. P. Karunaratne
Lanka Clear (Private) Limited		100,000	772	2,988	March 31, 2010	Mr. Sunimal Weerasooriya
Lanka Financial Services Bureau Limited		100,000	772	970	March 31, 2009	Mr. Rajendra Thegarajah
Pakistan Agro Storage and Services corporation*		2,500	2,500	–	–	–
Equity Participation Fund*		15,000	1,500	–	–	–
Al-Ameen Textile Mills Limited.*		19,700	197	–	–	–
Ayaz Textile Mills Limited.*		225,250	2,252	–	–	–
Custodian Management Services*		100,000	1,000	–	–	–
Musarrat Textile Mills Limited.*		3,604,500	36,045	–	–	–
Sadiqabad Textile Mills Limited.*		2,638,261	26,383	–	–	–
			92,415			
Cost of unlisted shares / certificates / units			523,915			
Provision against unlisted shares			(70,645)			
Carrying value of unlisted shares / certificates / units			453,270			

* These are fully provided unlisted shares.

3.1 These carry dividend rate of 6 months KIBOR + 2.5% per annum. The percentage of holding disclosed is in proportion to the preference share paid up capital.

For the year ended December 31, 2010

4. Particulars of investments in Term Finance Certificates and Sukuk Bonds– (refer note 9)

Investee	Number of certificates held	Paid up value per certificate	Total Paid up Value (before redemption)	Profit	Principal Redemption	Balance as at December 31, 2010	Name of Chief Executive
	(Rupees)					(Rupees in '000)	
LISTED TERM FINANCE CERTIFICATES – available for sale							
Askari Bank Limited – issue no. III	50,000	5,000	250,000,000	6 months KIBOR + 2.5% p.a. for first five years & 6 months KIBOR +2.95% for next five years	0.32% of principal amount in the first 96 months and remaining principal in four equal semi annual installments starting from the 102nd month from issue.	249,900	Mr. R. Mehakri
Alfalsh Bank Limited – issue no. III	100,000	5,000	500,000,000	6 months KIBOR + 2.5% p.a.	0.26% of principal amount in the first 78 months and remaining principal in three semi –annual installment starting from the 84th month.	499,800	Mr. Sirajuddin Azizi
Pak Arab Fertilizers Limited	20,000	5,000	100,000,000	6 months KIBOR + 1.5% p.a.	In six stepped –up semi-annual installments starting from the 30th month from July 2007.	94,000	Mr. Fawad Ahmed Mukhtar
United Bank Limited – issue no. IV	144,399	5,000	721,995,000	6 months KIBOR + 1.7% p.a.	0.2% of the principal in the first 60 months and remaining principal in 6 equal semi annual installments from September 2006.	681,361	Mr. Atif R. Bokhari
Allied Bank Limited – issue no. I	11,960	5,000	59,800,000	6 months KIBOR + 0.85% p.a. for first five years & 6 months KIBOR+1.30% for next 5 years.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	55,788	Mr. Khalid Sherwani
Allied Bank Limited – issue no. II	19,000	5,000	95,000,000	6 months KIBOR + 0.85% p.a. for first five years & 6 months KIBOR+1.30% for next 5 years.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	91,351	Mr. Khalid Sherwani
Carrying value before revaluation						1,672,200	
Surplus on revaluation of securities						15,903	
Market value of listed TFCs (revalued amount)						1,688,103	
SUKUK BONDS – available for sale							
	Terms of Redemption		Rate of interest	Currency			
	Principal	Interest					
WAPDA Sukuk Bonds	At maturity	Half-yearly	6 Month KIBOR+0.35%	PKR		400,000	Mr. Muhammad Shakil Durrani
Government of Pakistan Ijara Sukuks	At maturity	Half-yearly	6-Month MTB Auction Weighted Average Yield.	PKR		1,700,000	
Deficit on revaluation of securities						(5,273)	
Market value of sukuk bonds						2,094,727	

For the year ended December 31, 2010

Investee	Number of certificates held	Paid up value per certificate	Total Paid up Value (before redemption)	Profit	Principal Redemption	Balance as at December 31, 2010	Name of Chief Executive
	(Rupees)					(Rupees in '000)	
TERM FINANCE CERTIFICATES – held to maturity							
Askari Bank Limited – issue no. I	20,000	5,000	100,000,000	6 months KIBOR + 1.5% p.a.	0.3% of principal amount in the first 90 months and the remaining principal in the 96th month from February 2005.	97,811	Mr.R. Mehakri
– issue no. II	19,980	5,000	99,900,000	6 months KIBOR + 1.5% p.a.	0.3% of principal amount in the first 90 months and the remaining principal in the 96th month from October 2005.	96,793	—do—
	39,980		199,900,000				
Bank Alfalah Limited – issue no. II	10,000	5,000	50,000,000	6 months KIBOR + 1.5% p.a.	0.25% of principal in the first 78 months and remaining principal in 3 semi-annual installments of 33.25% each of the issue amount starting from the 84th month from November 2004.	49,259	Mr. Sirajuddin Aziz
– issue no. III	39,720	5,000	198,600,000	6 months KIBOR + 1.5% p.a.	0.25% of the principal in the first 78 months and remaining in 3 semi annual installments of 33.25% each starting from the 84th month from November 2005.	192,911	—do—
	49,720		248,600,000				
Jahangir Siddiqui and Company Limited	56	5,000,000	280,000,000	6 months KIBOR + 1.5% to 2.2% p.a. over 10 years	In 4 equal semi-annual installments, starting from 8–1/2 years from December 2004.	279,272	Mr. Munaf Ibrahim
Bank Al Habib Limited	20,000	5,000	100,000,000	6 months KIBOR + 1.5% p.a. with a floor and cap of 3.5% and 10% per annum respectively.	0.02% of total issue in equal installments in first 78 months and the remaining principal in 3 semi-annual installments from the 84th month from July 2004.	95,423	Mr. Abbas D. Habib
Soneri Bank Limited	30,000	5,000	150,000,000	6 months KIBOR + 1.6% p.a.	In 4 semi annual equal installments starting from the 78th month from May 2005.	145,842	Mr. Atif Bajwa
United Bank Limited – issue no. III	56,978	5,000	284,890,000	6 months KIBOR + 1.7% p.a.	0.2% of the principal in the first 60 months and remaining principal in 6 equal semi annual installments from September 2006.	282,122	Mr. Atif R. Bokhari
Allied Bank Limited	46,400	5,000	232,000,000	6 months KIBOR + 0.85% p.a. for first five years & 6 months KIBOR+1.30% for next 5 years.	0.38% of principal amount in the first 114 months and remaining principal will be paid at maturity	231,908	Mr. Khalid Sherwani
JDW Sugar Mills Limited	45,000	5,000	225,000,000	3 months KIBOR + 1.25% p.a.	Quarterly installments starting from March 23, 2010	175,000	Mr. Jehangir Khan Tareen
Shakarganj Mills Limited	16,000	5,000	80,000,000	6 Month KIBOR +2.25% p.a.	In 10 equal semi-annual installments starting from 18th Month from the date of issue date.	80,000	Mr. Ahsan Saleem
Islamabad Electric Supply Company Limited	200,000	5,000	1,000,000,000	6 Month KIBOR +0.23% p.a.	In 4 equal semi-annual installments starting from November 2009.	750,000	Mr. Javed Pervaiz
Gujranwala Electric Supply Company Limited	200,000	5,000	1,000,000,000	6 Month KIBOR +0.23% p.a.	In 4 equal semi-annual installments starting from November 2009.	750,000	Muhammad Ibrahim Majoka
Faisalabad Electric Supply Company Limited	200,000	5,000	1,000,000,000	6 Month KIBOR +0.23% p.a.	In 4 equal semi-annual installments starting from November 2009.	750,000	Tanveer Safdar Cheema
Carrying value of unlisted TFCs						3,976,341	

The above excludes unlisted term finance certificates, debentures, bonds and participation term certificates of companies which are fully provided for in these financial statements.

For the year ended December 31, 2010

5 Details of Bonds, Debentures and Federal Government Securities (refer note 9) – held to maturity

Description	Terms of Redemption		Rate of interest	Currency	Foreign Currency	Carrying value as
	Principal	Interest			Amount	at December 31, 2010
						(Rupees in '000)
Debentures						
Singer (Sri Lanka) Plc.	At maturity	Half-yearly	21.85%	SLR	90,000	69,462
Sukuk Bonds						
WAPDA Sukuk Bonds	At maturity	Half-yearly	6 Month KIBOR +0.35%	PKR	–	400,000
Sui Southern Gas Company Limited Sukuk Bonds	At maturity	Quarterly	3 Month KIBOR +1.4%	PKR	–	145,833
Maple Leaf Cement Factory Limited Sukuk Bonds	In 8 unequal semi-annual installments	Half-yearly	6 Month KIBOR +1.70%	PKR	–	374,681
Quetta Textile Mills Limited Sukuk Bonds	In 12 equal semi-annual installments	Half-yearly	6 Month KIBOR +1.50%	PKR	–	72,500
J.D.W Sugar Mills Limited Sukuk Bonds	In 18 unequal quarterly installments	Quarterly	3 Month KIBOR +1.25%	PKR	–	136,111
Sitara Energy Limited	In 8 equal semi-annual installments	Half-yearly	6 Month KIBOR +1.15%	PKR	–	98,636
Century Paper and Boards Mills Limited Sukuk Bonds	At maturity	Half-yearly	6 Month KIBOR +1.35%	PKR	–	200,000
					–	1,427,761
Euro Bonds						
Pakistan Euro Bonds	At maturity	Half-yearly	7.125% & 6.875 %	US\$	16,892	1,446,590

6 Summarized financial information of associated undertakings (refer note 9)

The gross amount of assets, liabilities, revenue, profit and net assets of associated undertakings are as follows:

Name of associated undertaking	Country of incorporation	Assets	Liabilities	Net assets	Revenue	Profit after tax	% of interest held
(Rupees in '000)							
2010							
First Women Bank Limited (unaudited based on September 30, 2010)	Pakistan	12,804,666	11,704,309	1,100,357	460,994 *	18,687	26.78%
Adamjee Insurance Company Limited (unaudited based on September 30, 2010)	Pakistan	25,809,424	15,155,098	10,654,326	5,049,611 **	133,317	29.13%
		38,614,090	26,859,407	11,754,683	5,510,605	152,004	
2009							
First Women Bank Limited (unaudited based on September 30, 2009)	Pakistan	10,645,302	9,481,305	1,163,997	415,120 *	(7,684)	26.78%
Adamjee Insurance Company Limited (unaudited based on September 30, 2009)	Pakistan	21,364,087	10,882,002	10,482,085	5,187,372 **	2,308,817	29.13%
		32,009,389	20,363,307	11,646,082	5,602,492	2,301,133	

* Represents net mark-up / interest income and non mark up income

** Represents net premium revenue

Notes to the Consolidated Financial Statements Annexure II

For the year ended December 31, 2010

Disposal of operating fixed assets (refer note 11.2.3)

Description	Cost	Accumulated depreciation	Book value	Sales proceeds/ insurance claim	Mode of disposal/ settlement	Particulars of buyers	Location
(Rupees in '000)							
Furniture and fixture, electrical, computers and office equipment							
Items having book value in aggregate more than Rs. 250,000 or cost of more than Rs. 1,000,000	4,039	3,638	401	1,041	Auction	Karachi Auction Mart	Karachi
	1,600	1,370	230	67	Quotations	M/S Ghulam Mustaffa	–
	13,883	13,764	119	225	Quotations	M/S Abdul Razzaq & Brothers Kabaria	Lahore
	19,522	18,772	750	1,333			
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	6,743	4,845	1,898	2,109	Auction / Quotation	Different Buyers	All Pakistan
Vehicles							
Mercedes Benz	8,860	7,088	1,772	1,772	Bank Car Policy	Mr. Atif Aslam Bajwa	Lahore
Honda Accord	4,225	3,380	845	845	Bank Car Policy	Mr. Atif Aslam Bajwa	Lahore
Mercediez Benz	3,526	2,821	705	705	Bank Car Policy	Mr. Agha Saeed	Lahore
Mercediez Benz	3,526	2,821	705	705	Bank Car Policy	Mr. Ali Munir	Lahore
Toyota Hilux	2,160	2,160	–	1,500	Under Claim	M/S Adamjee Insurance	Insurance Claim
Honda Civic	1,563	521	1,042	1,042	Bank Car Policy	Mr. Atif Aslam Bajwa	Lahore
Honda Civic	1,429	495	934	933	Bank Car Policy	Mr. M.A Saleem	Lahore
Honda Civic	1,383	627	756	1,207	Auction	Mr. Khalid Mehmood	Lahore
Honda Civic	1,376	826	550	972	Auction	Mr. Khurram Imtiaz	Insurance Claim
Toyota Corola	1,365	200	1,165	1,389	Under Claim	M/S Adamjee Insurance	Insurance Claim
Toyota Corola	800	800	–	160	Company Policy	Mr. Muhammad Adnan Rasheed	Karachi
Toyota Corola	800	733	67	875	Negotiations	Mr. Muhammad Ali	Karachi
	31,013	22,472	8,541	12,105			
Other Vehicles having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	23,130	17,004	6,126	18,729			
2010	80,408	63,093	17,315	34,276			
2009	123,318	60,840	62,478	93,092			

Notes to the Consolidated Financial Statements Annexure III

For the year ended December 31, 2010

Summarized detail of the valuation of owned properties (refer note 11.2.1)

City	Land	Building	Total
	(Rupees in '000)		
Abbottabad	20,000	2,427	22,427
Bahawalpur	14,140	7,490	21,630
Chakwal	1,800	5,062	6,862
Chistian	13,200	1,260	14,460
Dera Gazi Khan	12,600	12,255	24,855
Dir	13,000	1,680	14,680
Faisalabad	486,286	141,939	628,225
Gawadar	450	—	450
Gujranwala	141,095	81,749	222,844
Gujrat	54,000	17,292	71,292
Hafizabad	32,000	4,402	36,402
Haripur	26,915	3,507	30,422
Haroonabad	14,640	1,980	16,620
Hyderabad	186,696	67,140	253,836
Islamabad	1,274,485	225,703	1,500,188
Jehlum	24,000	20,313	44,313
Jhang	19,625	2,218	21,843
Karachi	3,460,564	2,232,035	5,692,599
Kasur	14,040	1,434	15,474
Khanpur	19,033	7,218	26,251
Lahore	3,250,068	1,812,896	5,062,964
Larkana	27,420	5,197	32,617
Mianwali	14,375	16,780	31,155
Mirpur	57,352	8,635	65,987
Mirpurkhas	22,640	4,901	27,541
Multan	99,393	318,968	418,361
Muree	20,000	901	20,901
Muridke	30,000	3,234	33,234
Muzafarabad	57,235	7,993	65,228
Naushero Feroze	5,930	1,366	7,296
Okara	16,338	10,945	27,283
Peshawar	86,000	18,207	104,207
Quetta	276,760	31,082	307,842
Rahim Yar Khan	5,940	5,270	11,210
Rawalpindi	388,593	110,430	499,023
Sadiqabad	23,595	4,130	27,725
Sahiwal	14,720	10,753	25,473
Sargodha	74,147	16,205	90,352
Shahdapur	4,850	756	5,606
Sheikhupura	40,000	8,606	48,606
Shujabad	6,400	3,250	9,650
Sialkot	40,000	10,313	50,313
Moro	8,500	2,150	10,650
Sukkur	35,920	12,853	48,773
Swat	46,600	4,568	51,168
Tando Allahyar	2,600	727	3,327
Vehari	5,555	1,637	7,192
Wazirabad	12,000	6,062	18,062
Overseas	—	54,026	54,026
MCB Asset Management Company Limited (subsidiary company)	—	80,800	80,800
Grand total	10,501,500	5,410,745	15,912,245

Branch Network

As on December 31, 2010

COMMERCIAL BRANCH BANKING GROUP

Circle / No. of Branches			Region	No. of Branches	No. of Sub Branches
Commercial Branch Banking Group – South					
1.	KARACHI CITY 44	01. 02.	Karachi City Karachi North	21 23	– –
2.	KARACHI EAST 37	03. 04.	Karachi East Karachi South	18 19	1 –
3.	KARACHI WEST 41	05. 06.	Karachi Central Karachi West	21 20	– –
4.	HYDERABAD 60	07. 08.	Hyderabad Nawabshah	32 28	– 1
5.	QUETTA 38	09.	Makran Quetta Circle	08 30	– –
TOTAL CBBG - SOUTH				220	02
Commercial Branch Banking Group – East					
1.	KARACHI CITY 44	01. 02.	Karachi City Karachi North	21 23	– –
2.	KARACHI EAST 37	03. 04.	Karachi East Karachi South	18 19	1 –
3.	KARACHI WEST 41	05. 06.	Karachi Central Karachi West	21 20	– –
4.	HYDERABAD 60	07. 08.	Hyderabad Nawabshah	32 28	– 1
5.	QUETTA 38	09.	Makran Quetta Circle	08 30	– –
TOTAL CBBG - SOUTH				220	02
Commercial Branch Banking Group – Central					
1.	LAHORE 92	01. 02. 03. 04.	Lahore Central Lahore City Lahore East Lahore West	22 22 24 24	– – – –
2.	FAISALABAD 93	05. 06. 07.	Faisalabad Faisalabad City Sheikhupura	33 34 26	1 – –
3.	GUJRANWALA 93	08. 09. 10.	Gujranwala Gujrat Sialkot	27 34 32	– 2 –
4.	SARGODHA 88	11. 12. 13.	Jhang Mianwali Sargodha	29 28 31	1 – 1
TOTAL CBBG - CENTRAL				366	05
Commercial Branch Banking Group – North					
1.	ISLAMABAD 76	01. 02. 03.	Chakwal Islamabad Rawalpindi	24 25 27	– – –
2.	JHELUM 51	04. 05.	Jhelum Muzaffarabad A.K.	22 29	– –
3.	PESHAWAR 70	06. 07. 08.	Kohat Mardan Peshawar	22 24 24	– – 1
4.	ABBOTTABAD 68	09. 10. 11.	Abbottabad Attock Swat	24 26 18	– 3 –
TOTAL CBBG - NORTH				265	04

Branch Network

As on December 31, 2010

WHOLESALE BANKING GROUP

Circle / No. of Branches	No. of Branches	No. of Sub-Branches
Wholesale Banking Branches	10	–

ISLAMIC BANKING GROUP

Circle / No. of Branches	No. of Branches	No. of Sub-Branches
Islamic Banking	14	02

PRIVILEGE BANKING

Circle / No. of Branches	No. of Branches	No. of Sub-Branches
Privilege Banking	07	–

OVERSEAS OPERATION

Circle / No. of Branches	No. of Branches
1. Colombo	1
2. EPZ	1
3. Kandy	1
4. Maradana	1
5. Offshore Banking Unit (OBU) - Bahrain	1
6. Pettah	1
7. Wellawatte	1
TOTAL	7
Dubai (Rep. Office)	1

SUMMARY

Group	Circles	Regions	No. of Branches
CBBG-South	5	9	220
CBBG-East	3	8	243
CBBG-Central	4	13	366
CBBG-North	4	11	265
Wholesale Banking	-	-	10
Islamic Banking	-	-	14
Privilege Banking	-	-	7
Total	16	41	1,125
Overseas	-	-	6
EPZ	-	-	1
Grand Total	16	41	1,132

PROVINCE-WISE

Province	Branches	Sub-Branches	Total
Punjab	700	9	709
Sindh	251	4	255
Khyber Pakhtunkhwa	110	1	111
Balochistan	40	-	40
Azad J. Kashmir	24	-	24
Domestic Total	1,125	14	1,139
Overseas	6	-	6
EPZ	1	-	1
Grand Total	1,132	14	1,146

Pattern of Shareholding

As of December 31, 2010

Share Holders	Having Shares		No. of Shares	% age
	From	To		
16,248	1	100	623,820	0.08
12,451	101	500	3,091,383	0.41
6,171	501	1,000	4,472,382	0.59
6,121	1,001	5,000	8,821,754	1.16
209	5,001	10,000	1,480,289	0.19
204	10,001	50,000	4,624,787	0.61
39	50,001	100,000	2,629,165	0.35
69	100,001	500,000	16,669,648	2.19
41	500,001	1,000,000	29,210,992	3.84
39	1,000,001	5,000,000	92,510,834	12.17
5	5,000,001	10,000,000	37,686,621	4.96
3	10,000,001	15,000,000	34,889,222	4.59
1	15,000,001	20,000,000	19,439,497	2.56
5	20,000,001	25,000,000	113,605,793	14.94
6	25,000,001	Above	390,458,792	51.36
41,612			760,214,979	100

Categories of shareholders

	No of Share Holders	Shares held	Percentage
Directors, CEO and their spouse and minor children	15	57,412,411	7.5521
Associated Companies, Undertakings & Related Parties	13	379,123,038	49.8705
NIT & ICP	4	131,567	0.0173
Banks, DFI & NBFI	20	1,582,229	0.2081
Insurance Companies	17	50,076,792	6.5872
Modarabas & Mutual Funds	44	6,677,686	0.8784
General Public (Local)	37,770	110,658,668	14.5562
General Public (Foreign)	3,464	2,770,691	0.3645
Foreign Companies	86	122,373,480	16.0972
Others	179	29,408,417	3.8684
	41,612	760,214,979	100.0000

Pattern of Shareholding under Code of Corporate Governance

As of December 31, 2010

Associated Companies, Undertakings and Related Parties

Adamjee Insurance Company Limited	23,263,378
Adamjee Insurance Company Limited - Employees Provident Fund	60,500
D.G. Khan Cement Company Limited	69,856,731
D.G.Khan Cement Company Limited - Employees Provident Fund	180,721
Din Leather (Private) Limited	4,737,611
Mayban International Trust (Labuan) Berhad	152,042,995
MCB Dynamic Stock Fund	34,414
MCB Bank Limited - Employees Pension Fund	11,672,105
MCB Bank Limited - Provident Fund Pak Staff	23,489,968
Nishat (Chunian) Limited - Employees Provident Fund	6,050
Nishat Mills Limited	53,411,266
Nishat Mills Limited - Employees Provident Fund	5,658,353
Siddiqsons Limited	34,708,948

NIT and ICP

Investment Corporation of Pakistan	615
National Bank of Pakistan-Trustee Department NI(U)T Fund	123,914
IDBP (ICP Unit)	1,364
National Investment Trust Limited	5,674

Directors, CEO and their spouse and minor children

Mian Mohammad Mansha	5,352
Sarmad Amin	1,949
Mian Raza Mansha	8,648,106
Aftab Ahmed Khan	627
Dato' Muhammed Hussein	6,105
Muhammad Ali Zeb	1,210
S. M. Muneer	1,408
Tariq Rafi	2,989,161
Mrs. Nighat Tariq	80,383
Shahzad Saleem	618
Mian Umer Mansha	21,847,128
Ammil Raza	19,439,497
Naz Mansha	4,387,719
Dr. Muhammad Yaqoob	695
M. U. A. Usmani	2,453

Executives	102,613
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Public Sector Companies & Corporations (other than those covered under insurance companies & banks)	NIL
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Banks, Develop Finance Institutions, Non- Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds	58,336,707
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Shareholdings more than 10%

Mayban International Trust (Labuan) Berhad	152,042,995
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Notice of 63rd Annual General Meeting

Notice is hereby given that 63rd Annual General Meeting of the members of MCB Bank Limited will be held at Islamabad Hotel (Holiday Inn), G-6, Civic Centre, Islamabad on Thursday, March 31, 2011 at 3:00 PM to transact the following business:

Ordinary Business:

1. To confirm the minutes of 62nd Annual General Meeting held on March 26, 2010.
2. To receive, consider and adopt the Annual Audited Financial Statements of MCB Bank Limited & consolidated accounts of MCB Bank Limited and its subsidiaries for the year ended December 31, 2010 together with the Directors' and Auditors' reports thereon.
3. To appoint auditors for the year ending December 31, 2011 till the conclusion of next Annual General Meeting and fix their remuneration. A notice has been received from a member to the appointment of M/s A.F. Ferguson & Company, Chartered Accountants, who have consented to act as auditors in place of M/s KPMG Taseer Hadi & Company, Chartered Accountants, so as to comply with Clause (xli) of the Code of Corporate Governance, as the present auditors have completed the period of five years.
4. To approve, as recommended by directors, payment of Final Cash Dividend @ 30 % i.e. PKR 3.0 per share for the financial year 2010 in addition to 85% (25% 1st, 30% 2nd & 3rd quarters) Interim Cash Dividends already paid.

Special Business:

5. To approve the issue of Bonus Shares in the ratio of 10 shares for every 100 shares held (i.e. 10%) as declared and recommended by the Board of Directors and if thought fit, pass the following Resolutions as Ordinary Resolutions;

"Resolved that a sum of PKR 760.215 million out of reserves of the Bank available for appropriation as at December 31, 2010, be capitalized and applied for issue of 76,021,497 Ordinary Shares of Rs.10/- each allotted as fully paid bonus shares to the members of the Company whose names appear on the register of members as at close of business on March 21, 2011 in the proportion of ten shares for every hundred shares held (i.e. 10%) and that such shares shall rank pari passu in every respect with the existing ordinary shares of the Bank."

"Further Resolved that the bonus shares so allotted shall not be entitled for final cash dividend for the year 2010."

"Further Resolved that fractional entitlement of the members shall be consolidated into whole shares and sold on the Karachi Stock Exchange and to pay the proceeds of sale when realized to any recognized charitable institution."

"Resolved Further that the Company Secretary be and is hereby authorized and empowered to give effect to this resolutions and to do or cause to do all acts, deeds and things that may be necessary or required for issue, allotment and distribution of bonus shares."

6. To consider and, if deemed fit, pass the following Ordinary Resolutions as recommended by the Board of Directors of the Bank:
 - a. "Resolved that approval is hereby granted to donate for relief and rehabilitation of flood affected people up to PKR 30 million (Rupees thirty million only) for the flood victims of the Punjab, other provinces and Azad Jammu Kashmir."
 - b. "Resolved that approval is hereby granted for donation of PKR 50 million (Rupees fifty million only) for the construction of 226 houses in two villages (Basti Darkhanwala and Verar Sipra, Distt. Muzaffargarh) for flood affected residents of the area at an estimated total cost of PKR 65 million."
 - c. "Resolved that the proposal of MCB Sri Lanka for donation of LKR 1.0 Million in favour of Rotary Club of Colombo for Early Cancer Detection Center, as Bank's Corporate Social Responsibility, be and is hereby approved."
 - d. "Resolved that approval is hereby granted to donation of PKR 0.5 million (Rupees five hundred thousand only) for the part construction of the mosque in the hospital premises of Armed Forces Institute of Cardiology & National Institute of Heart Diseases, Rawalpindi."
 - e. "Resolved that the Board, in the light of the specific security warnings received from the Ministries of Interior and Defence, Government of Pakistan, has reviewed the management's proposal to purchase 'Toyota Land Cruiser AXG-4 Door SUV-4.6LIT with Armor Conversion' for the Chairman's security; and the proposal be and is hereby approved."

Notice of 63rd Annual General Meeting

7. To consider and grant approval of reimbursement of Directors' travelling, hotel and other expenses incurred in the execution of their duties as Director in accordance with the requirements of Section 191 of the Companies Ordinance, 1984 and, if deemed fit, pass the following ordinary resolutions, with or without modification:

"Resolved that post facto approval is hereby granted for the reimbursement of an amount of

PKR 3,334,067 (Rupees three million, three hundred thirty four thousand and sixty seven only) incurred during the years 2009 & 2010 by Directors of the Bank on travelling, hotel and others for performing extra services in relation to the Bank's business beyond their ordinary duties as Director as per Article 94 of the Articles of Association of the Bank and in accordance with the provisions of Section 191 of the Companies Ordinance, 1984."

8. To transact any other business with the permission of the Chair.

Statement required under section 160(1)(b) of Companies Ordinance, 1984 is being sent to the members with this notice.

By order of the Board

February 10, 2011
Islamabad

ABDUS S. SAMI
Company Secretary

NOTES:

1. Shares Transfer Books of MCB Bank Limited will remain closed from March 22, 2011 to March 31, 2011 (both days inclusive). Share Transfers received at M/s THK Associates (Pvt) Limited, the Registrar and Share Registration Office, Ground Floor, State Life Building No.3, Dr. Ziauddin Ahmed Road, Karachi at the close of business hours on March 21, 2011 will be treated as being in time for the purpose of entitlement of cash dividend and bonus shares the transferees.
2. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint another member as a proxy to attend and vote on his/her behalf. A

corporation being a member may appoint as its proxy any of its official or any other person whether a member of the Bank or not.

3. The instrument of Proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority in order to be effective must be deposited at the Registrar and Share Registration Office not less than 48 hours before the time for holding the Meeting.
4. Members are requested to immediately notify the change, if any, in their registered address to Bank's the Registrar and Share Registration Office.
5. CDC account holders will further have to follow the under mentioned guidelines as laid down by the Circular No. 1, dated January 26, 2000, issued by Securities and Exchange Commission of Pakistan.

For Attending of Meeting:

- i. In case of individuals, the Account holder and/or Sub-account holder whose registration details are uploaded as per the CDC regulations, shall authenticate his/her identity by showing his/her original CNIC or original passport at the time of attending the meeting.
- ii. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

For Appointing of Proxies:

- i. In case of individuals, the Account holder and/or Sub-account holder whose registration details are uploaded as per the CDC regulations, shall submit the proxy form as per above requirements.
- ii. The proxy form shall be witnessed by the two persons whose name, addresses and CNIC numbers shall be mentioned on the form.
- iii. Attested copy of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- iv. The proxy shall produce his/her original CNIC or passport at the time of the meeting.
- v. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form of the Bank.

Notice of 63rd Annual General Meeting

Statement under Section 160 (1) (b) of the Companies Ordinance, 1984, pertaining to Special Business:

This Statement sets out the material facts pertaining to the Special Business to be transacted at the 63rd Annual General Meeting of the Company.

Agenda No. 5 – Issue of Bonus Shares:

The Directors are of the view that the reserves / profits are adequate for capitalization of a sum of PKR 760.215 million for issue of the proposed 10% bonus shares; and in this regard compliance has been made under Rule 6 of the Companies (Issue of Capital) Rules, 1996. Auditors' certificate in respect of adequacy of reserves has also been obtained. The Directors are interested in this business to the extent of their entitlement to the bonus shares as shareholders.

Agenda No. 6 – Approval of Donations / Proposal for Purchase of Armored Vehicle:

- a. The Board considering its philanthropic responsibilities shared the huge losses caused by the natural catastrophe to lives and property of the flood affected people as well as to the public infrastructure and approved a donation of PKR 30 million for relief & rehabilitation of the flood victims of the Punjab, other provinces and Azad Jammu Kashmir.
- b. The Bank responded promptly and generously as a responsible corporate citizen by making sizeable donation to various Relief Funds established by the Federal/Provisional Governments including Pak Armed Forces; however, the monumental scale of the destruction call for a more substantial contribution. After initial surveys through visits and interaction with Government and non-Government organizations working in the flood affected areas, two villages, namely, Basti Darkhanwala and Verar Sipra in district Muzaffargarh have been identified and surveyed where virtually all dwellings were destructed by the floods and left the residents homeless. The Board took initiative to construct 226 houses and for providing Tube wells / Filtration Plants for clean drinking water in Muzaffargarh, two villages, namely, Basti Darkhanwala and Verar Sipra.
- c. The Rotary Club of Colombo, the Corporate and Philanthropic community in Sri Lanka, requested MCB (Sri Lanka Office) to extend its support to develop Cancer Early Detection Center, one of the pioneering efforts to prevent, and enable poor segments of the

society to access help in preventing, terminal diseases like cancer. The Board considering MCB as a partner of Sri Lankan people in sharing social responsibility recommended donation of LKR 1.0 million (Sri Lankan Rupee one million only) (Exchange Rate for PKR to LKR 0.7718) for the consideration of shareholders.

- d. The Board considering its social responsibilities towards society at large approved the donation of PKR 0.5 million (Rupees five hundred thousand only) for the part construction of the mosque in the hospital premises of Armed Forces Institute of Cardiology and National Institute of Heart Diseases, Rawalpindi placed before the shareholders for their consideration.
- e. The Board reviewed the specific security warnings received from the Ministry of Defence, as well as Ministry of Interior, Government of Pakistan, alerting and advising that extensive measures should be taken for protection of the Chairman of the Bank, as they had reports with them which indicated that the Chairman's life could be in danger and approved providing him with the armored car.

The Directors have no interest in above mentioned donations.

Agenda No. 7 – Reimbursement of Traveling Expenses to Directors of the Bank:

The Physical Planning, IT System and Contingency Arrangements, a Board Sub-Committee, has been in the process of upgrading the Information Technology (IT) infrastructure of the Bank. The Chairman of the Committee and one of its members along with the management visited Euronet, SunGard and IBM offices (local & abroad) in order to observe the live working of the systems and deliberate on its financial costs. It incurred a total cost of PKR 3,334,067 (Rupees three million, three hundred thirty four thousand and sixty seven only) on travelling and accommodation etc. for performing extra services in relation to the Bank's business beyond their ordinary duties as Director as per Article 94 of the Articles of Association of the Bank and in accordance with the provisions of Section 191 of the Companies Ordinance, 1984. The Directors have no personal interest in this business.

Important terms and formulae used for calculation in Financial Statements are briefly described here;

Breakup Value per share

Represents the total worth (equity) of the business per share, calculated as shareholders' equity or Net Assets excluding the impact of revaluation on fixed assets, divided by the total number of share outstanding at year end.

BSD

Banking Surveillance Department

Capital Adequacy Ratio (CAR)

The relationship between capital and risk weighted assets as defined in the framework developed by the State Bank of Pakistan.

Cash Reserve Ratio (CRR)

Cash Reserve Ratio is the amount of funds that the banks have to keep with SBP.

Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cost to Income Ratio

The proportion of total operating costs excluding total provisions and write-offs, to total income, represented as combination of net interest income and non interest income.

Credit Risk Spread

The credit spread is the yield spread between securities with the same coupon rate and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to take on a lower credit quality.

Dividend Payout Ratio

Dividends (cash dividend plus bonus shares) paid per share as a fraction of earnings per share (EPS).

Dividend Yield Ratio

Dividend per share divided by the market value of share.

Forced Sale Value (FSV)

Forced Sale Value means the value which fully reflects the possibility of price fluctuations and can currently be obtained by selling the mortgaged / pledged assets in a forced / distressed sale conditions.

Government Securities

Government Securities shall include such types of Pak. Rupee obligations of the Federal Government or a Provincial Government or of a Corporation wholly owned or controlled, directly or indirectly, by the Federal Government or a Provincial Government and guaranteed by the Federal Government as the Federal Government may, by notification in the Official Gazette, declare, to the extent determined from time to time, to be Government Securities.

IAS

International Accounting Standards

IFRS

International Financial Reporting Standards

IFRIC

International Financial Reporting Interpretation Committee

Impairment allowances

A provision held on the balance sheet as a result of the raising of a charge against profit for the incurred loss inherent in the lending book. An impairment allowance may either be identified or unidentified and individual or collective.

Interest Rate Swap (IRS)

An Interest Rate Swap (the swap) is a financial contract between two parties exchanging or swapping a stream of interest payments for a 'Notional Principal' amount on multiple occasions during a specified period. The swap is usually "fixed to floating" or "floating to floating" exchanges of interest rate. As per the contract, on each payment date during the swap period, the cash payments based on difference in fixed/floating or floating / floating rates are exchanged by the parties from one another. The party incurring a negative interest rate differential for that leg pays the other counter-party.

Loan losses and provisions

Amount set aside against identified and possible losses on loans, advances and other credit facilities as a result of their becoming party or wholly uncollectible.

Liquid Assets

The assets which are readily convertible into cash without recourse to a court of law and mean encashment / realizable value of government securities, bank deposits, certificates of deposit, shares of listed companies which are actively traded on the stock exchange, NIT Units, certificates of mutual funds, Certificates of Investment (COIs) issued by DFIs / NBFCs rated at least 'A' by a credit rating agency on the approved panel of State Bank of Pakistan, listed TFCs rated at least 'A' by a credit rating agency on the approved panel of State Bank of Pakistan and certificates of asset management

companies for which there is a book maker quoting daily offer and bid rates and there is active secondary market trading. These assets with appropriate margins should be in possession of the banks / DFIs with perfected lien.

Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of share as at the year end.

Net Interest Income (NII)

Net interest income is the difference between the interest earned on assets and interest expensed on liabilities.

NPLs to Gross Advances/Loans

Represents the infected portfolio of the bank and is calculated by dividing the total non-performing loans by gross advances.

Non Performing Loan-Substandard Category

Where markup/interest or principal is overdue by 90 days or more from the due date.

Non Performing Loan-Doubtful Category

Where markup/interest or principal is overdue by 180 days or more from the due date.

Non Performing Loan-Loss Category

Where mark-up/interest or principal is overdue by one year or more from the due date and Trade Bill (Import/ Export or Inland Bills) are not paid/adjusted within 180 days of the due date.

Repo / Reverse Repo

A repurchase agreement, or repo, is a short term funding agreements which allow a borrower to sell a financial asset, such as ABS or government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.

Return on Equity (ROE)

Represents the ratio of the current year's profit available for distribution to the weighted average shareholders equity over the period under review, calculated by dividing the net profit (profit after tax) to the average equity (before surplus) for the period.

Return on Assets (ROA)

Indicator of profitability of the business relative to the value of its assets, calculated by dividing the net profit (profit after tax) to the average total assets for the period.

Secured means exposure backed by tangible security and any other form of security with appropriate margins (in cases where margin has been prescribed by State Bank, appropriate margin shall at least be equal to the prescribed margin). Exposure without any security or collateral is defined as clean. The banks / DFIs may also take exposure against Trust Receipt. They are, however, free to take collateral / securities, to secure their risks / exposure, in addition to the Trust Receipt. Banks / DFIs will be free to decide about obtaining security / collateral against the L/C facilities for the interim period, i.e. from the date of opening of L/C till the receipt of title documents to the goods.

Strategic Investment

Strategic Investment is an investment which a bank / DFI makes with the intention to hold it for a period of minimum 5 years.

The following must be noted further in respect of strategic investment:

- The bank should mark strategic investment as such at the time of investment
- If there are a series of purchases of stocks of a company, the minimum retention period of 5 years shall be counted from the date of the last purchase.
- The banks / DFIs will report their investment in strategic portfolio to the Banking Policy Department, within 2 working days from the date of such investment.

SRO

Statutory Regulatory Order

VaR

Value at Risk is an estimate of the potential loss which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day, measured to a confidence level of 97.5 per cent.

Weighted Average Cost of Deposits

Percentage of the total interest expensed on average deposits of the bank for the period.

[illegible]

Form of Proxy

63rd Annual General Meeting

I/We _____
of _____
being a member (s) of MCB Bank Limited, and holder of _____
Ordinary Shares do hereby appoint Mr / Mrs / Miss _____
of _____ or failing him / her _____
of _____ who is also a member of the Bank, vide Folio/CDC Account
No. _____ as my / our proxy in my / our absence to attend, speak and vote for me / us
and on my / our behalf at the 63rd Annual General Meeting of the Bank to be held on
Thursday, March 31, 2011 at 3:00 PM at Islamabad Hotel (Holiday Inn), G-6, Civic Centre, Islamabad,
and at any adjournment thereof.

As witness my / our hand/Seal this _____ day of _____ 2011.

Signed by _____

In the presence of _____

Folio No.	CDC Account No.	
	Participant I.D.	Account No.

Signature on
Five-Rupees
Revenue Stamp

The signature should agree
with the specimen registered
with the Bank.

Date:

Place:

Important:

1. This Proxy Form, duly completed and signed, must be deposited in the office of M/s THK Associates (Pvt) Limited, the Registrar and Share Registration Office, Ground Floor, State Life Building No.3, Dr. Ziauddin Ahmed Road, Karachi, not less than 48 hours before the time of holding the meeting.
2. If a member appoints more than one proxy and more than one instruments of proxies are deposited by a member with the Bank, all such instruments of proxy shall be rendered invalid.
3. For CDC Account Holders / Corporate Entities

In addition to the above the following requirements have to be met.

- i. Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be provided with the proxy form.
- ii. The proxy shall produce his original CNIC or original passport at the time of the meeting.
- iii. In case of a corporate entity, the Board of Directors resolution / power of attorney with specimen signature shall be submitted. (Unless it has been provided earlier along with proxy form to the Company).





Principal Office

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